

Rose State College
Financial Statements
with Independent Auditors' Reports
June 30, 2013 and 2012

Rose State College
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June 30, 2013

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Rose State College
A Component Unit of the State of Oklahoma
Management's Discussion and Analysis
Fiscal Years Ended June 30, 2013 and 2012

Introduction

The discussion and analysis of Rose State College's (the College) financial statements provides an overview of the College's financial activities for the year ended June 30, 2013. Since the management's discussion and analysis is designed to focus on the College's financial performance based on current conditions, activities resulting in change and current known facts, please read it in conjunction with the College's basic financial statements and the footnotes. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

Using This Annual Report

The accompanying financial statements reflect the activities of the 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). However, the MD&A focuses on highlights and explanations of significant changes in financial operations and conditions only for the College and its blended unit, the Tech District.

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 report information on the operations 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, liabilities and deferred inflows and deferred outflows - is one way to measure the College's financial health or financial condition. Over time, increases or decreases in the College's net position are an indicator of whether its financial health is improving or deteriorating. The reader will also need to consider other non-financial factors, such as the quality of applicants, enrollment trends, student retention, accreditation, condition of the buildings and the safety of the campus in assessing the overall health of the institution.

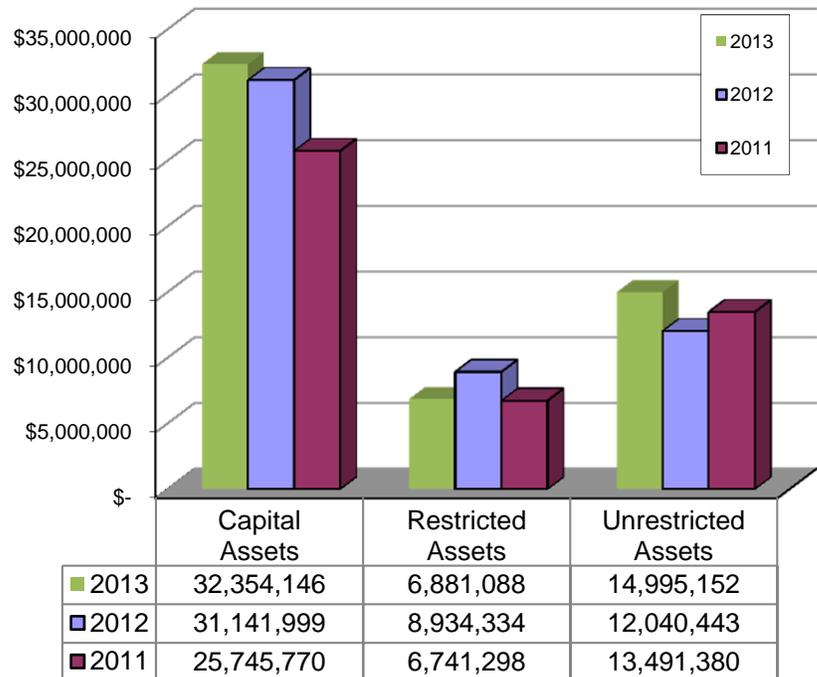
These statements report all assets and liabilities at current values except for capital assets which are reported at historical costs less accumulated depreciation. All of the current year's revenues and expenses are reported using the accrual basis of accounting.

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

Financial Highlights

Total Net Position

At June 30, 2013, the College's net position increased to \$54.2 million from \$52.1 million in 2012, an increase of \$2.1 million or 4.1%. This increase largely reflects the completion of the campus wide PeopleSoft ERP system upgrade and the effect of the asset restatement discussed in the financial statements. Please see footnote #12 for further discussion on the restatement. Total net position in FY2012 increased \$6.1 million over the FY2011 valuation of \$46.0 million. This increase was driven by the donation of land and infrastructure improvements.



For fiscal year 2013, the increase in Capital Assets is offset by the decrease in Restricted Assets, as funding set aside (restricted) for the PeopleSoft upgrade was used for payment of invoices. The \$2.9 million increase in Unrestricted Assets is the result of operations. This chart provides a graphical breakdown of assets by category for the fiscal years ending June 30, 2013, 2012 and 2011.

Operating Results

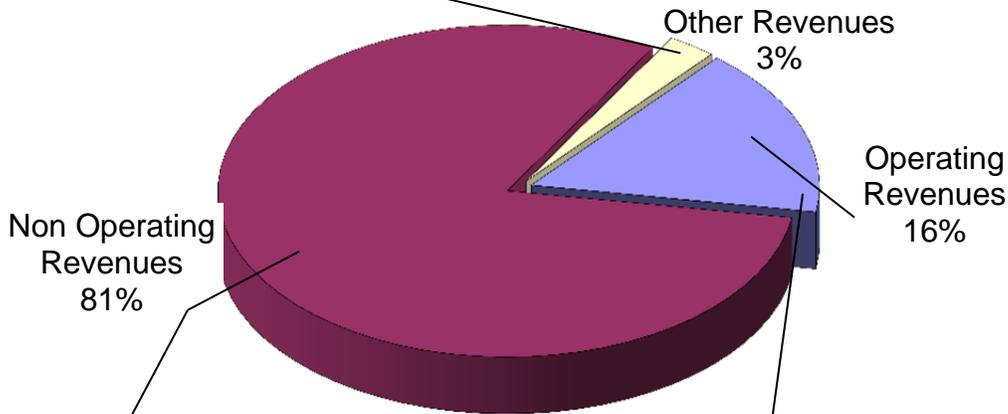
Total College revenues for fiscal 2013 were \$54.8 million, a decrease of \$4.5 million compared to 2012 revenues of \$59.2 million. This largely reflects a decrease in Non-Operating Revenue such as Federal and State Grants. Revenues were decreased across all categories. The fiscal 2012 total revenues were only slightly lower than revenues for 2011. Overall, expenditures for 2013 declined slightly compared to fiscal 2012 spending. The 2012 spending decreased over fiscal 2011. These results are from an effort to contain expenses but also reflect the trend for lower enrollment. The following tables and charts provide a presentation of total and operating revenues by category followed by a presentation of total expenses by category for the fiscal years ending June 30, 2013, 2012 and 2011.

Revenue By Category	2013	2012	2011	Change F/12 to 13	Percent Change	Change F/11 to 12	Percent Change
Operating Revenues	\$ 9,019,502	\$ 9,358,857	\$ 12,260,944	(\$ 339,355)	(3.6%)	(\$2,902,087)	(23.7%)
Non-Operating Revenues	44,259,819	48,142,018	45,322,884	(3,882,199)	(8.1%)	2,819,134	6.2%
Other Revenues	1,474,480	1,738,406	1,738,248	(263,926)	(15.2%)	158	.01%
Total Revenues	\$ 54,753,801	\$ 59,239,281	\$ 59,322,076	(\$ 4,485,480)	(7.6%)	(\$ 82,795)	(.14%)

Total Revenues by Category

The categories of non-operating revenue and operating revenues are shown in the charts and tables below.

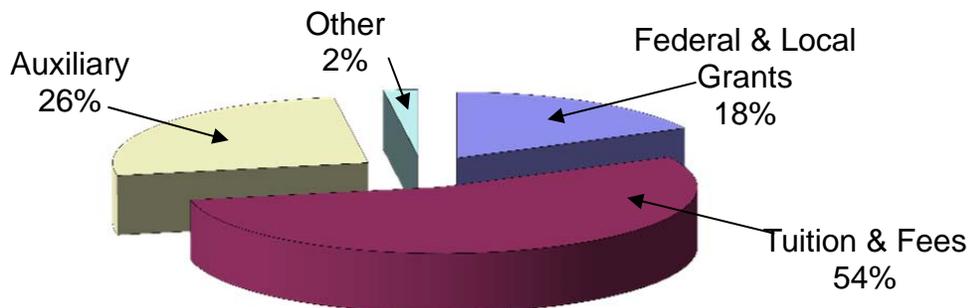
Other Revenues consist of capital appropriations and OCIA debt service totaling \$1.5 million



Non Operating Revenues

State appropriations	\$ 19,864,583
Federal and state grants	13,064,998
OTRS On-behalf	1,295,000
Ad valorem taxes	9,773,961
Investment income	255,627
Other non-operating	<u>5,650</u>
Total Non-Operating	<u>\$ 44,259,819</u>

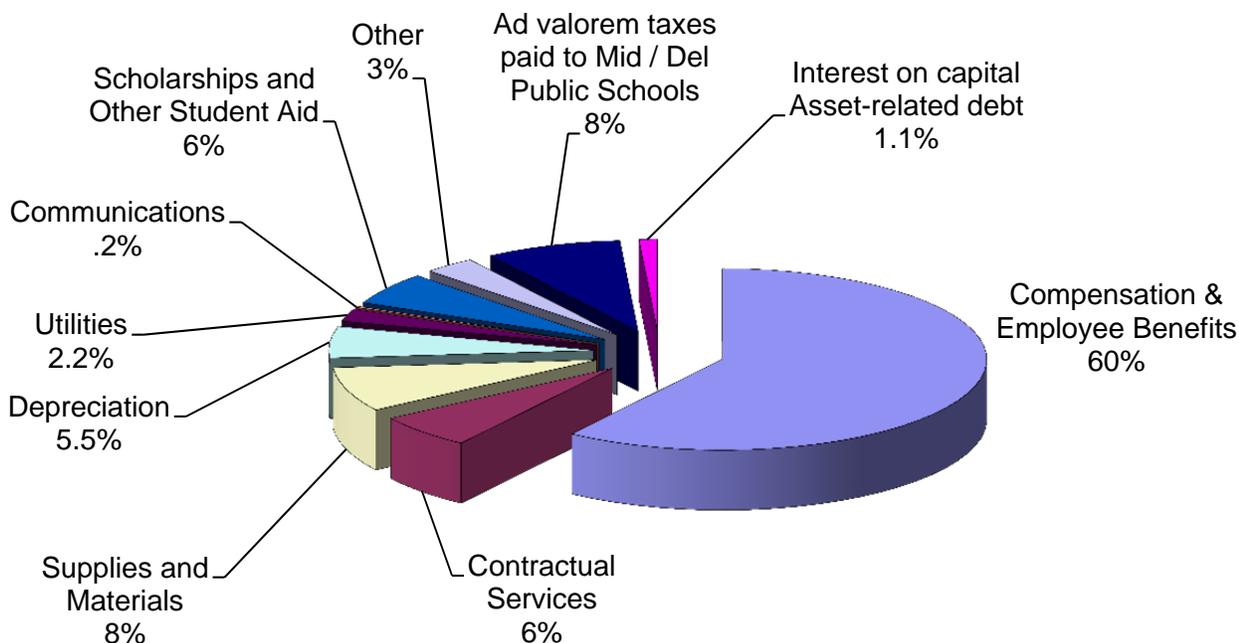
Total Operating Revenues by Category



Operating Revenue	2013	2012	2011	Change F/12 To 13	Percent Change	Change F/11 to F/12	Percent Change
Federal & Local Grants	\$ 1,576,697	\$ 1,866,445	\$ 1,046,472	(\$ 289,748)	(15.5%)	\$ 819,973	78.4%
Tuition & Fees	4,907,988	4,876,199	7,696,071	31,789	.7%	(2,819,872)	(36.6%)
Auxiliary	2,340,082	2,407,525	3,328,140	(67,443)	(2.8%)	(920,615)	(27.7%)
Other	194,735	208,688	190,261	(13,953)	(6.7%)	18,427	9.7%
Total Operating Rev.	\$ 9,019,502	\$ 9,358,857	\$12,260,944	(\$ 339,355)	(3.6%)	(\$2,902,087)	(23.7%)

Total Expenses by Category

Total expenses of the College for fiscal 2013 were \$52.6 million, a decrease of \$.5 million or .9% compared to fiscal 2012 expenses of \$53.1 million. The 2012 total expenses decreased \$.7 million or 1.3% compared to 2011 results. Historically, the College's largest expense has been compensation and employee benefits which grew to 60% of total expenses in 2013.



Total Expenses by Category	2013	2012	2011	Increase (Decrease) F/12 to 13	Percent Change	Increase (Decrease) F/11 to 12	Percent Change
Compensation & Employee Benefits	\$31,391,649	\$30,570,816	\$31,429,787	\$ 820,833	2.7%	(\$ 858,971)	(2.7%)
Contractual Services	3,202,700	3,205,123	3,166,778	(2,423)	(.1%)	38,345	1.2%
Supplies and Materials	4,160,806	2,783,369	5,166,489	1,377,437	49.5%	(2,383,120)	(46.1%)
Depreciation	2,962,553	2,749,912	2,557,611	212,641	7.7%	192,301	7.5%
Utilities	1,172,480	1,337,577	1,211,264	(165,097)	(12.3%)	126,313	10.4%
Communications	119,355	138,845	157,336	(19,490)	(14.0%)	(18,491)	(11.8%)
Scholarships and Other Student Aid	3,030,959	5,575,215	4,135,012	(2,544,256)	(45.6%)	1,440,203	34.8%
Other	1,643,580	1,675,863	1,719,413	(32,283)	(1.9%)	(43,550)	(2.5%)
Ad valorem paid to Mid/Del Public Schools	4,378,510	4,415,198	3,540,354	(36,688)	(.8%)	874,844	24.7%
Interest on capital asset-related debt	577,599	649,035	704,966	(71,436)	(11.0%)	(55,931)	(7.9%)
Total Expenses by Category	\$52,640,191	\$53,100,953	\$53,789,010	\$ (460,762)	(0.9%)	(\$ 688,057)	(1.3%)

Statement of Net Position

The statement of net position presents the financial position of the College at the end of the fiscal year and includes all assets, liabilities and deferred inflows and outflows of the College. This statement replaces the statement of net assets presented in prior years and is the result of the implementation of GASB 63 for fiscal 2013. The deferred inflow recognized for the bookstore concession arrangement is the result of the implementation of GASB 60 and recognizes the present value of future installment payments guaranteed by the contract with the management company. Please see footnote #11 for a more thorough discussion of the concession arrangement. This net position is an indicator of the current financial condition of the College. The following table is prepared from the College's Statement of Net Position and summarizes information as of June 30, 2013, 2012 and 2011.

Balances as of June 30th	<u>2013</u>	<u>2012</u>	<u>2011</u>	Change FY12 To FY13	Percent Change	Change FY11 To FY12	Percent Change
Current Assets	\$24,571,833	\$22,090,954	\$22,516,579	\$2,480,879	11.2%	(\$ 425,625)	(1.9%)
Noncurrent Assets							
Restricted cash and cash equivalents	657,747	2,501,998	1,224,255	(1,844,251)	(73.7%)	1,277,743	104.4%
Accounts receivable, net	275,810	0	0	275,810	100.0%	0	0.0%
Unamortized bond issuance costs	0	6,463	7,375	(6,463)	(100.0%)	(912)	(12.4%)
Capital assets, net of depreciation	<u>43,785,213</u>	<u>43,836,887</u>	<u>39,665,327</u>	<u>(51,674)</u>	<u>(0.1%)</u>	<u>4,171,560</u>	<u>10.5%</u>
Total assets	69,290,603	68,436,302	63,413,536	854,301	1.3%	5,022,766	13.3%
Current Liabilities	3,262,755	3,559,440	3,188,140	(296,685)	(8.3%)	371,300	11.7%
Noncurrent Liabilities	<u>11,487,531</u>	<u>12,760,086</u>	<u>14,246,948</u>	<u>(1,272,555)</u>	<u>(10.0%)</u>	<u>(1,486,862)</u>	<u>(10.4%)</u>
Total liabilities	<u>14,750,286</u>	<u>16,319,526</u>	<u>17,435,088</u>	<u>(1,569,240)</u>	<u>(9.6%)</u>	<u>(1,115,562)</u>	<u>(6.4%)</u>
Deferred Inflows							
Bookstore service concession arrangement	309,931	0	0	309,931	100.0%	0	0.0%
Net Position							
Net investment in capital assets	32,354,146	31,141,999	25,745,770	1,212,147	3.9%	5,396,229	21.0%
Restricted expendable	6,881,088	8,934,334	6,741,298	(2,053,246)	(23.0%)	2,193,036	32.5%
Unrestricted	<u>14,995,152</u>	<u>12,040,443</u>	<u>13,491,380</u>	<u>2,954,709</u>	<u>24.5%</u>	<u>(1,450,937)</u>	<u>(10.8%)</u>
Total assets	<u>\$54,230,386</u>	<u>\$52,116,776</u>	<u>\$45,978,448</u>	<u>\$2,113,610</u>	<u>4.1%</u>	<u>\$ 6,138,328</u>	<u>13.4%</u>

- Current assets increased to \$24.6 million, growing \$2.5 million or 11.2% in fiscal 2013 from \$22.0 million in fiscal 2012. The increase largely comes from an increase in cash balances. Early in fiscal 2014, College administration committed up to \$5 million of these cash balances for use on capital projects. Fiscal 2012 results showed a decrease of \$.4 million compared to 2011 current assets largely because of a similar transfer of funds from current assets to restricted cash for use on the PeopleSoft upgrade, a capital project, completed during fiscal 2013.
- Total liabilities decreased by \$1.6 million or 9.6% in fiscal 2013 compared to fiscal 2012 balances. This decrease reflects reduced long term debt which totaled \$11.4 million at the end of 2013 compared to \$12.7 million at the end of fiscal 2012 and \$14.2 million at the end of fiscal 2011. The majority of long term debt is comprised of the OCIA Capital Lease obligation (2006 series) for the Health Sciences building with a balance of \$9.2 million at the end of fiscal 2013. See footnote #5 for more information.

- Assets increased \$2.1 million or 4.1% to a balance of \$54.2 million during fiscal 2013 compared to 2012 balances. This increase is largely from the increase in unrestricted assets. Fiscal year 2012 showed an increase of \$6.1 million or 13.4% compared to fiscal 2011 balances. This reflects the donation of approximately 48 acres of undeveloped land in Midwest City with an appraised value of almost \$2 million and completion of capital improvements and renovations.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the College's results of operations and other non-operating activities. A summarized statement of revenues, expenses and changes in net position as of June 30, 2013, 2012 and 2011 is included below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change FY 12 To 13</u>	<u>Percent Change</u>	<u>Change FY11 To 12</u>	<u>Percent Change</u>
Operating Revenues							
Tuition and fees, net	\$ 4,907,988	\$ 4,876,199	\$ 7,696,071	\$31,789	0.7%	(\$2,819,872)	(36.6 %)
Federal, state and local grants and contracts	1,576,697	1,866,445	1,046,471	(289,748)	(15.5%)	819,974	78.4 %
Auxiliary (bookstore and food services), net	2,340,082	2,407,525	3,328,140	(67,443)	(2.8%)	(920,615)	(27.7 %)
Other	<u>194,735</u>	<u>208,688</u>	<u>190,261</u>	<u>(13,953)</u>	<u>(6.7%)</u>	<u>18,427</u>	<u>9.7 %</u>
Total operating revenues	<u>9,019,502</u>	<u>9,358,857</u>	<u>12,260,943</u>	<u>(339,355)</u>	<u>(3.6%)</u>	<u>(2,902,086)</u>	<u>(23.7 %)</u>
Operating Expenses							
Compensation and employee benefits	31,391,649	30,570,816	31,429,787	820,833	2.7%	(858,971)	(2.7 %)
Contractual services, supplies and materials	7,363,506	5,988,492	7,762,958	1,375,014	23.0%	(1,774,466)	(22.9 %)
Depreciation	2,962,553	2,749,912	2,606,087	212,641	7.7%	143,825	5.5 %
Utilities and communications	1,291,835	1,476,422	1,368,600	(184,587)	(12.5%)	107,822	7.9 %
Scholarships and other student aid	3,030,959	5,575,215	4,135,012	(2,544,256)	(45.6%)	1,440,203	34.8 %
Other	<u>1,643,580</u>	<u>1,675,863</u>	<u>1,719,413</u>	<u>(32,283)</u>	<u>(1.9%)</u>	<u>(43,550)</u>	<u>(2.5 %)</u>
Total operating expenses	<u>47,684,082</u>	<u>48,036,720</u>	<u>49,021,857</u>	<u>(352,638)</u>	<u>(0.7%)</u>	<u>(985,137)</u>	<u>(2.0 %)</u>
Operating Loss	<u>(38,664,580)</u>	<u>(38,677,863)</u>	<u>(36,760,914)</u>	<u>13,283</u>	<u>0.0%</u>	<u>(1,916,949)</u>	<u>5.2 %</u>
Non-operating Revenues (Expenses)							
State appropriations	19,864,583	20,599,612	17,650,700	(735,029)	(3.6%)	2,948,912	16.7%
State appropriations - ARRA	0	0	1,470,651	0	0.0%	(1,470,651)	(100.0 %)
Federal and state grants	13,064,998	16,386,432	15,483,917	(3,321,434)	(20.3%)	902,515	5.8%
OTRS on-behalf contributions	1,295,000	1,225,000	1,138,000	70,000	5.7%	87,000	7.6%
Ad valorem taxes	9,773,961	9,704,447	9,359,847	69,514	0.7%	344,600	3.7 %
Ad valorem taxes remitted to Mid/Del Public Schools	(4,378,510)	(4,415,198)	(3,540,354)	36,688	(0.8%)	(874,844)	24.7 %
Other	<u>(316,322)</u>	<u>(422,508)</u>	<u>(485,197)</u>	<u>106,186</u>	<u>(25.1%)</u>	<u>62,689</u>	<u>(12.9 %)</u>
Net Non-operating revenues	<u>39,303,710</u>	<u>43,077,785</u>	<u>41,077,564</u>	<u>(3,774,075)</u>	<u>(8.8%)</u>	<u>2,000,221</u>	<u>4.9 %</u>
Net Loss Before Other Revenues, Expenses, Gains and Losses	639,130	4,399,922	4,316,650	(3,760,792)	85.5%	83,272	1.9 %
Other Revenues, Expenses, Gains and Losses	<u>1,474,480</u>	<u>1,738,406</u>	<u>1,689,117</u>	<u>(263,926)</u>	<u>(15.2%)</u>	<u>49,289</u>	<u>2.9 %</u>
Increase in Net Position	2,113,610	6,138,328	6,005,767	(4,024,718)	(65.6%)	132,561	2.2 %
Net Position, Beginning of Year	<u>52,116,776</u>	<u>45,978,448</u>	<u>39,972,680</u>	<u>6,138,328</u>	<u>13.4%</u>	<u>6,005,768</u>	<u>15.0 %</u>
Net Position, End of Year	<u>\$ 54,230,386</u>	<u>\$ 52,116,776</u>	<u>\$ 45,978,447</u>	<u>\$ 2,113,610</u>	<u>4.1%</u>	<u>\$ 6,138,329</u>	<u>13.4 %</u>

- Total operating revenues, for fiscal 2013, fell by \$.3 million or 3.6% compared to fiscal 2012 results largely from a decrease in grants and contract training and lower contributions from

auxiliary functions. Tuition and fee revenue was mostly static, reflecting a decrease in credit hour production across all semesters offset by an increase in tuition and fees. Contributions from auxiliary functions, especially food service, are expected to increase in future periods as a result of a new contract provider who took over management early in fiscal 2014. The ending results for fiscal 2012 showed a decrease of \$2.9 million or 23.7% from 2011. This resulted from a dramatic decrease in tuition and fees because of a decline in credit hour production as the economy began to recover and changes in financial aid regulations, especially summer Pell Grants.

- Operating expenses decreased by almost \$.4 million or .7% in 2013 continuing the trend from 2012 results which declined \$1 million or 2% from 2011. The 2013 decrease was driven by three main areas.
 1. Fiscal 2013 compensation and employee benefits increased \$.82 million or 2.7% compared to fiscal 2012 totals because of across the board pay increases for all regular employees. This almost exactly offset the decrease of \$.86 million or 2.7% experienced in 2012 compared to 2011 results, which was driven by a decrease in headcount and savings from retirements and employee turnover. Compensation and benefits continues to be the largest operating expenditure for the college.
 2. Contractual services, supplies and materials expenditures increased \$1.4 million or 23% in fiscal 2013 compared to 2012 largely from the completion of the PeopleSoft upgrade and increased replacement of furniture and fixtures in campus buildings. This almost exactly offset the decline of \$1.8 million or 22.9% experienced in fiscal 2012 compared to the 2011 expenditures from savings in privatization of the food service operations and the decertification of the Police Department.
 3. Scholarships and other student aid, in fiscal 2013, decreased \$2.5 million or 45.6% compared to fiscal 2012 results. This reflects the decreased enrollment across all semesters and the associated reduction in financial aid. Also, as a result of changes in federal financial aid regulations, fiscal 2013 did not have an additional summer semester dispersal of Pell. In fiscal 2012, an increase of \$1.4 million or 34.8% was experienced compared to fiscal 2011 results. In contrast, fiscal 2012 and 2011 were the only periods with an additional summer disbursement of Pell to students. Scholarships and other student aid represent financial aid received by the college exceeding the charges owed and thus refunded to the awarded students.
- Net non-operating revenues for 2013, in total, decreased \$3.7 million or 8.8% from 2012. This decrease was mainly driven by a \$3.3 million reduction in Federal and State grants and other contributions. For fiscal 2012 non-operating revenues increased by \$2.0 million or 4.9% versus 2011 results. Highlights of the fiscal 2013 decrease include:
 1. Federal and state grants, in the non-operating revenue context, are related to financial aid, whether from federal sources or state sources. This aid is applied to the student account to cover the cost of tuition and fees. Any remaining or excess aid is refunded to the student. Many factors have a direct effect on the amount of financial aid received by the College. One large factor is current federal financial aid regulations. In fiscal 2011 and fiscal 2012 the federal Department of Education had a program that made additional Pell grant awards to students for the summer semesters. These summer awards were in addition to the Pell grants awarded for spring and fall semesters. In fiscal 2013, this program ended and no additional Pell awards were made for the summer semester. Overall, Pell awards for fiscal

2013 were decreased by \$1.9 million compared to fiscal 2012. Pell awards for fiscal 2012 were \$.5 million lower than fiscal 2011 results.

2. The trend of declining enrollment began in fiscal 2011 and has continued through to fiscal 2013, although we are seeing a flattening of that trend line. This is cycle was expected as the economy recovered and people opted to enter or remain in the workforce as opposed to pursuing higher education. Lower enrollment translates to lower receipts of financial aid from federal and state sources. Looking at Credit hours produced is one way to evaluate enrollment. In fiscal 2013 credit hours produced declined by 6.1% compared to fiscal 2012. In comparison, in fiscal 2012, there were 8.9% fewer credit hours produced than in fiscal 2011.
 3. Although this line on the statement is called Federal and state grants, it also contains grants and donations from private individuals. Part of the 2013 decrease is the result of these donations. In fiscal 2012, land valued at slightly less than \$2 million was donated to the Rose State College Technical Area Education District, a blended component unit in these statements. With this donation, the Federal and state grants for fiscal 2012 was almost \$1.0 million higher than fiscal 2011 results. Since no donation of this size was received in fiscal 2013, it serves to amplify the decrease experienced between the two most current years.
- Other Revenues, Expenses, Gains and Losses reflect restricted funds allocated for capital expenditures from the state and payment of the Oklahoma Capital Improvement Authority (OCIA) lease obligation made on behalf of the College. Since the OCIA payment requires no cash outlay by the College, the payment is recorded as Other Revenue and shown as such on the financial statements. Because of payment timing decisions made at the state level the amount recognized by OCIA fluctuates between years. The OCIA lease obligation results from the building of the Health Sciences building. The state allocation of funds restricted for capital use has remained static over the past three fiscal years and is not likely to be increased in the near future.

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 its obligations as they come due and its needs for external financing.

The College's cash and cash equivalents for fiscal 2013 increased by \$750 thousand versus 2012. The financial results for fiscal 2012 were a \$900 thousand increase cash and cash equivalents over 2011. The use of cash for operating activities decreased by \$200 thousand compared to fiscal 2012. Noncapital financing activities used cash of \$2.5 million, when compared to 2012, largely from reduced financial aid received from federal and state sources as discussed in other portions of this MD&A. Capital related financing provided cash largely from reduced spending on capital assets compared to fiscal 2012 which had a higher level of spending for the PeopleSoft upgrade. The fiscal 2013 also includes a \$400 thousand deposit received by the Tech District as a good faith payment for a bond issue which closed in early 2014. At the time of the closing of the bond sale this deposit will become part of the bonds payable balance, but, was held on deposit as of June 30, 2013.

The following schedule is summarized from the College's Statement of Cash Flows for the year ended June 30, 2013, 2012 and 2011.

Year Ended June 30	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change FY12 To 13</u>	<u>Change FY11 To 12</u>
Cash Provided by (Used In):					
Operating activities	\$ (34,663,323)	\$(34,878,103)	\$(34,104,189)	\$ 214,780	\$ (773,914)
Noncapital financing activities	37,084,594	39,629,208	39,479,278	(2,544,614)	149,930
Capital and related financing activities	(1,914,838)	(4,074,543)	(1,733,048)	2,159,705	(2,341,495)
Investing activities	<u>242,802</u>	<u>226,527</u>	<u>219,769</u>	<u>16,275</u>	<u>6,758</u>
Net increase (decrease) in cash and cash equivalents	749,235	903,089	3,861,810	(153,854)	(2,958,721)
Cash and Cash Equivalents, Beginning of Year	<u>22,249,321</u>	<u>21,346,232</u>	<u>17,484,422</u>	<u>903,089</u>	<u>3,861,810</u>
Cash and Cash equivalents, End of Year	<u>\$ 22,998,556</u>	<u>\$ 22,249,321</u>	<u>\$ 21,346,232</u>	<u>\$ 749,235</u>	<u>\$ 903,089</u>

Capital Assets

At June 30, 2013, the College had approximately \$93.5 million invested in capital assets with accumulated depreciation of \$49.7 million resulting in a net capital asset value of approximately \$43.8 million which is almost exactly the same as the 2012 net valuation. For 2012 the total net capital asset value of \$43.8 million reflected a large increase of \$4.2 million, or 10.5%, compared to fiscal year 2011. The increase in net valuation for 2012 results from two main factors: the donation of approximately 48 acres of undeveloped land with an appraised value of almost \$2 million and the recognition of expenses related to the upgrade to the PeopleSoft ERP system which was completed in fiscal 2013. The reader should be aware that because of a change in the way assets are reported in the system and in finding two errors, the capital asset valuations for all three fiscal years discussed have been restated. Please see footnote #12 Prior Period Adjustments for a more detailed explanation of the restatement. Also note the finding in the auditor's report related to the issues.

Details of these capital asset investments are shown in the table below.

Capital Assets, Net of Accumulated Depreciation at June 30, 2013, 2012 and 2011

Year Ended June 30	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Change FY12 To 13</u>	<u>Percent Change</u>	<u>Change FY11 To 12</u>	<u>Percent Change</u>
Land	\$ 5,523,477	\$ 5,203,335	\$ 3,205,989	\$ 320,142	6.2 %	\$ 1,997,346	62.3 %
Building and improvements	31,591,238	33,048,353	32,312,774	(1,457,115)	(4.4 %)	735,579	2.3 %
Land improvements/ infrastructure	325,919	346,482	367,045	(20,563)	(5.9 %)	(20,563)	(5.6 %)
Furniture, fixtures and equipment	5,066,763	2,213,051	2,371,988	2,853,712	129.0%	(158,937)	(6.7 %)
Library materials	1,277,816	1,389,032	1,407,532	(111,216)	(8.0 %)	(18,500)	(1.3 %)
Construction in Progress	<u>-</u>	<u>1,636,634</u>	<u>-</u>	<u>(1,636,634)</u>	<u>(100.0%)</u>	<u>1,636,634</u>	<u>100.0 %</u>
Total Capital Assets, net of Accumulated Depreciation	<u>\$43,785,213</u>	<u>\$ 43,836,887</u>	<u>\$39,665,328</u>	<u>\$ (51,674)</u>	<u>(0.1 %)</u>	<u>\$ 4,171,559</u>	<u>10.5 %</u>

Debt

At June 30, 2013, the College had approximately \$11.4 million in debt (bonds and capital lease obligations) outstanding; a decrease of \$1.3 million or 10.0% compared the debt valuation of \$12.7 million in 2012. The fiscal 2012 results show a decrease in debt of \$1.5 million or 10.5% when compared to 2011 balances. No new debt obligation was realized in any of the periods discussed. The reader should be aware that the electorate within the Tech District voted to let a general obligation bond of approximately \$22 million with proceeds to be used for capital improvements and infrastructure upgrades. The sale of the bonds closed early in fiscal 2014 and will be fully reflected on the financial statements for that period. See footnote #5 Long Term Liabilities for more detailed information regarding the College's outstanding debt. The table below summarizes the College's debts, by type, for all three periods discussed.

Outstanding Debt at June 30, 2013, 2012 and 2011

Balances at June 30th	2013	2012	2011	Change FY12 To 13	Percent Change	Change FY11 To 12	Percent Change
2005 Building Bonds Payable	\$ 1,700,000	\$ 2,550,000	\$ 3,400,000	\$ (850,000)	(33.3%)	\$ (850,000)	(25.0%)
1999/2004 OCIA Capital Lease Obligation	185,994	211,320	235,457	(25,326)	(12.0%)	(24,137)	(10.3%)
2006 OCIA Capital Lease Obligation	9,243,375	9,591,915	10,157,115	(348,540)	(3.6%)	(565,200)	(5.6%)
ODFA Bus Master Lease	300,167	346,333	391,500	(46,166)	(13.3%)	(45,167)	(11.5 %)
ODFA 2009A Premium	1,531	1,783	2,035	(252)	(14.1%)	(252)	(12.4 %)
Total Outstanding Debt	<u>\$11,431,067</u>	<u>\$12,701,351</u>	<u>\$14,186,107</u>	<u>\$(1,270,284)</u>	<u>(10.0%)</u>	<u>\$(1,484,756)</u>	<u>(10.5 %)</u>

Economic Outlook

The economic stability of Rose State College is directly related to the state and local economic environment in which it operates. The College relies heavily on state appropriations to fund the operation of the school. Tuition and fee rate decisions must be weighed carefully and reflect local conditions experienced by students and parents. Financial Aid and Federal Grant funding have material impacts on the financial condition of the College and changes in those programs as national priorities have a direct economic bearing. The state of the local area economy directly impacts the enrollment and financial condition of the College. However, the condition of the College is strong and mission of the College is still viable and necessary for our general service area and the state as a whole.

Fiscal year 2013 continued to build on the feeling of stability with growth in the state's economy and the employment prospects and opportunities in the general area. The federal sequestration of funding impacted federal workers in area, a large portion of local workers, but had minimal effect on the College. Tuition and fees were increased by 4.6% in fiscal 2013. Even with this increase, the College continues to rank in the lowest tier of tuition and fees charged by public community colleges in Oklahoma. The College did experience a decline in enrollment of 6.1% during the year. In combination, the decreased hours of enrollment and the increased in rates resulted in a generally static level of tuition and fee revenue. This trend of lower enrollment is expected to continue but at a slower rate for fiscal 2014.

In fiscal year 2013, the College completed a major upgrade of its ERP system, PeopleSoft, with upgrades of servers, other hardware and software. Considerable use of consultants provided the opportunity to clean data currently in the system, improve the system setup and architecture and review many current process procedures. This project was largely funded with the use of reserves built up over prior periods. No other major capital project was initiated in fiscal 2013.

As noted before, the Tech District electorate voted to let a \$22 million general obligation bond issue to be used for capital improvements, renovations, expansion of the Learning Resource Center and upgrade to infrastructure. The bonds were sold in August 2013 and selection of architects and construction management has begun. Also, \$5 million of reserves will be reclassified to restricted assets to be used on other capital projects in fiscal 2014. These reserves will be used to address some deferred maintenance and improved aesthetics of the Student Center. These capital projects are not anticipated to be completed until late fiscal 2015 or 2016.

Efforts in recruiting students, retaining students and helping students complete their education goals and receive their degree are being enhanced in 2014. This includes the development of the Rose State College identity for students and will involve the enhancement of athletic programs, improved education and socialization spaces on campus and enhanced relationships between College faculty and staff and students. Positive results in these efforts will translate to a stabilization of enrollment and an improved community perception of the opportunities afforded by the Rose State College experience.

There are many challenges that will be faced in the next few fiscal periods. These include the limited opportunities for growth of appropriated funding and abilities to raise tuition and fees. Federal programs continue to be evaluated and changed in response to the national debate. The exact impact of these changes is not yet fully known. Certainly, changes required by the Affordable Care Act will have some effect on the level of benefits provided, but, the complete effect is yet to be felt. Other changes to financial aid programs will also have a more immediate effect.

But, the management of the College believes the institution to be in good financial condition and maintains a focus on continuing that position as new these challenges and opportunities present themselves.

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 Vice President for Administrative Services at Rose State College, 6420 S. E. 15th Street, Midwest City, Oklahoma, 73110.



Independent Auditor's Report

The 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) and the discretely presented component unit of Rose State College Foundation, Inc. as of and for the year ended June 30, 2013, 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 opinions 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 misstatements.

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, we 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and the discretely presented component unit as of June 30, 2013, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Restatement of Previously Reported Balances

As discussed in Note 12 to the financial statements, net position as of July 1, 2011 and June 30, 2012 has been restated to properly state capital assets as of those dates. Accordingly, adjustments have been made to the balances of net position as of July 1, 2011 and June 30, 2012. Our opinion is not modified with respect to this matter.

As discussed in Note 14J to the financial statements, net assets as of July 1, 2011 have been restated for certain net assets to conform to the existence or absence of donor-imposed restrictions. Accordingly, adjustments have been made to the balances of net assets as of July 1, 2011. Our opinion is not modified with respect to this matter.

As part of our audit of the 2013 financial statements, we also audited the adjustments described in Note 12 and 14J that was applied to restate the 2012 financial statements. In our opinion, these adjustments were appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 financial statements of the College other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2012 financial statements as a whole.

Effect of Adopting New Accounting Standards

As described in Note 1 to the financial statements, the College adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The opinion is not modified with the implementation of these GASB Statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 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.

Other Matters

Prior Year Audited by Other Auditors

The financial statements of Rose State College as of June 30, 2012, were audited by other auditors, whose report dated September 7, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 information shown in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the college. The schedule of expenditures of federal awards, the combining schedules, and the statement of revenues and expenses for the student center system are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma
December 20, 2013

Rose State College
Statements of Net Position
June 30, 2013

	Rose State College	Rose State College Foundation Inc.
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,867,472	\$ 129,604
Restricted:		
Cash and cash equivalents	1,473,337	-
Investments	-	812,057
Accounts receivable, net	1,210,995	-
Federal and state grants receivable, net	700,207	-
Delinquent ad valorem property taxes receivable, net	301,000	-
Accrued interest receivable	12,825	-
Prepaid Expenses	5,997	2,452
Total current assets	24,571,833	944,113
Non-current assets:		
Restricted:		
Cash and cash equivalents	657,747	-
Accounts receivable	275,810	-
Capital Assets, net	43,785,213	2,257,000
Total non-current assets	44,718,770	2,257,000
 Total assets	 69,290,603	 3,201,113
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	1,260,700	34,000
Accrued compensated absences	832,285	-
Unearned revenue	415,617	-
Deposits held pending bond issuance	439,600	-
Current maturities of long-term debt	70,099	-
Deposits held in custody for others	244,454	-
Total current liabilities	3,262,755	34,000
Non-current liabilities:		
Accrued compensated absences	126,563	-
Long-term debt	11,360,968	-
Total non-current liabilities	11,487,531	-
 Total liabilities	 14,750,286	 34,000
DEFERRED INFLOWS		
Bookstore service concession arrangement	309,931	-
NET POSITION		
Net investment in capital assets	32,354,146	-
Restricted nonexpendable - endowment	-	2,710,625
Restricted expendable for:		
Scholarships	5,189,604	631,621
Loans	5,351	-
Capital projects	1,095,662	-
Debt service	590,471	-
Unrestricted (deficit)	14,995,152	(175,133)
 Total net position	 \$ 54,230,386	 \$ 3,167,113

Rose State College
Statements of Net Position
June 30, 2012 (Restated)

	Rose State College	Rose State College Foundation Inc.
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,406,117	\$ 5,588
Restricted:		
Cash and cash equivalents	1,341,206	-
Investments	-	767,615
Accounts receivable, net	1,227,394	565
Federal and state grants receivable	903,996	-
Delinquent ad valorem property taxes receivable	208,000	-
Prepaid Expenses	4,241	2,371
Total current assets	22,090,954	776,139
Non-current assets:		
Restricted:		
Cash and cash equivalents	2,501,998	-
Unamortized bond issuance costs	6,463	-
Capital Assets, net	43,836,887	2,257,000
Total non-current assets	46,345,348	2,257,000
Total assets	68,436,302	3,033,139
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	1,770,562	34,000
Accrued compensated absences	831,011	-
Unearned revenue	536,866	-
Current maturities of long-term debt	67,828	-
Deposits held in custody for others	353,173	-
Total current liabilities	3,559,440	34,000
Non-current liabilities:		
Accrued compensated absences	126,563	-
Long-term debt	12,633,523	-
Total non-current liabilities	12,760,086	-
Total liabilities	16,319,526	34,000
NET POSITION		
Net investment in capital assets	31,141,999	-
Restricted nonexpendable - endowment	-	2,709,077
Restricted expendable for:		
Scholarships	5,091,130	543,026
Loans	5,213	-
Capital projects	2,880,214	-
Debt service	957,777	-
Unrestricted (deficit)	12,040,443	(252,964)
Total net position	\$ 52,116,776	\$ 2,999,139

Rose State College
Statements of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2013

Operating Revenues		
Tuition and fees, net	\$ 4,907,988	\$ -
Federal grants and contracts	1,112,939	-
State and private grants and contracts	463,758	-
Sales and services of auxiliary enterprises, net	2,340,082	-
Other operating revenues	194,735	-
Total operating revenues	<u>9,019,502</u>	<u>-</u>
Operating Expenses		
Compensation and benefits	31,391,649	-
Contractual services	3,202,700	-
Supplies and materials	4,160,806	-
Scholarships and fellowships	3,030,959	134,123
Communications	119,355	-
Depreciation	2,962,553	-
Utilities	1,172,480	-
Other	1,643,580	213,314
Total Operating Expenses	<u>47,684,082</u>	<u>347,437</u>
Operating loss	<u>(38,664,580)</u>	<u>(347,437)</u>
Non-operating Revenues (Expenses)		
State appropriations	19,864,583	-
Federal grants	11,725,693	-
State grants	1,339,305	-
OTRS on-behalf contributions	1,295,000	-
Ad valorem taxes	9,773,961	-
Ad valorem taxes remitted to Midwest City/Del City Public Schools	(4,378,510)	-
Contributions and other non-operating revenue	-	381,524
Net unrealized and realized gain on investments	-	133,887
Miscellaneous revenue	5,650	-
Investment revenue	255,627	-
Interest on capital asset-related debt	(577,599)	-
Net non-operating revenue	<u>39,303,710</u>	<u>515,411</u>
Net income before other revenues, expenses, gains, losses and transfers	639,130	167,974
Capital appropriations - state	628,735	-
OCIA debt services on-behalf payments	845,745	-
Increase in Net Position	2,113,610	167,974
Net Position, Beginning of Year, restated	<u>52,116,776</u>	<u>2,999,139</u>
Net Position, End of Year	<u>\$ 54,230,386</u>	<u>\$ 3,167,113</u>

Rose State College
Statements of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2012 (Restated)

	<u>Rose State College</u>	<u>Rose State College Foundation Inc.</u>
Operating Revenues		
Tuition and fees, net	\$ 4,876,199	\$ -
Federal grants and contracts	1,575,776	-
State and private grants and contracts	290,669	-
Sales and services of auxiliary enterprises, net	2,407,525	-
Other operating revenues	208,688	-
Total operating revenues	<u>9,358,857</u>	<u>-</u>
Operating Expenses		
Compensation and benefits	30,570,816	-
Contractual services	3,205,123	-
Supplies and materials	2,783,369	-
Scholarships and fellowships	5,575,215	176,203
Communications	138,845	-
Depreciation	2,749,912	-
Utilities	1,337,577	-
Other	1,675,863	128,765
Total Operating Expenses	<u>48,036,720</u>	<u>304,968</u>
Operating loss	<u>(38,677,863)</u>	<u>(304,968)</u>
Non-operating Revenues (Expenses)		
State appropriations	20,599,612	-
Federal grants	12,970,462	-
State grants	3,415,970	-
OTRS on-behalf contributions	1,225,000	-
Ad valorem taxes	9,704,447	-
Ad valorem taxes remitted to Midwest City/Del City Public Schools	(4,415,198)	-
Contributions and other non-operating revenue	-	255,612
Net unrealized and realized loss on investments	-	22,146
Investment revenue	226,527	-
Interest on capital asset-related debt	(649,035)	-
Net non-operating revenue	<u>43,077,785</u>	<u>277,758</u>
Net income (loss) before other revenues, expenses, gains, losses and transfers	4,399,922	(27,210)
Capital appropriations - state	628,735	-
OCIA debt services on-behalf payments	1,109,671	-
Increase (Decrease) in Net Position	6,138,328	(27,210)
Net Position, Beginning of Year	<u>45,978,448</u>	<u>3,026,349</u>
Net Position, End of Year	<u>\$ 52,116,776</u>	<u>\$ 2,999,139</u>

Rose State College
Statements of Cash Flows
Year Ended June 30, 2013

	<u>Rose State College</u>	<u>Rose State College Foundation Inc.</u>
Operating Activities		
Tuition and fees	\$ 4,846,394	\$ -
Grants and contracts	1,780,486	-
Payments to suppliers	(13,718,281)	(32,299)
Payments to employees	(30,104,641)	-
Foundation contributions	-	210,566
Scholarships	-	(134,123)
Auxiliary enterprises sales and services	2,340,082	-
Other operating receipts	192,637	-
Net cash used in (provided by) operating activities	<u>(34,663,323)</u>	<u>44,144</u>
Noncapital Financing Activities		
State appropriations	19,864,583	-
Non-operating grants	13,064,998	-
Ad valorem taxes received	8,756,193	-
Ad valorem taxes remitted to Midwest City/Del City Public Schools	(4,601,180)	-
Net cash provided by noncapital financing activities	<u>37,084,594</u>	<u>-</u>
Capital and Related Financing Activities		
Purchases of capital assets	(2,910,880)	-
Deposits held pending bond issuance	439,600	-
Principal paid on capital leases and bonds	(896,166)	-
Interest paid on capital leases and bonds	(99,508)	-
Capital appropriations – state	628,735	-
Ad valorem taxes received for debt service	923,381	-
Net cash used in capital and related financing activities	<u>(1,914,838)</u>	<u>-</u>
Investing Activities		
Proceeds from maturities of investments	-	93,562
Purchase of investments	-	(13,690)
Investment income received	242,802	-
Net cash provided by investing activities	<u>242,802</u>	<u>79,872</u>
Increase in Cash and Cash Equivalents	749,235	124,016
Cash and Cash Equivalents, Beginning of Year	<u>22,249,321</u>	<u>5,588</u>
Cash and Cash Equivalents, End of Year	<u>\$ 22,998,556</u>	<u>\$ 129,604</u>

Rose State College
Statements of Cash Flows
Year Ended June 30, 2013
(Continued)

	<u>Rose State College</u>	<u>Rose State College Foundation Inc.</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Current assets		
Cash and cash equivalents	\$ 20,867,472	\$ 129,604
Restricted cash and cash equivalents	1,473,337	-
Noncurrent assets		
Restricted cash and cash equivalents	<u>657,747</u>	<u>-</u>
	<u>\$ 22,998,556</u>	<u>\$ 129,604</u>
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating (loss) income	\$ (38,664,580)	\$ 167,974
Depreciation expense	2,962,553	-
Net realized and unrealized gains on investments	-	(124,314)
OTRS on-behalf contributions	1,295,000	-
Receivables, net	261,346	565
Prepaid expenses	(1,756)	(81)
Accounts payable and other accrued liabilities	(386,645)	-
Accrued payroll and compensated absences	(7,992)	-
Deferred revenue	<u>(121,249)</u>	<u>-</u>
Net Cash (Provided by) Used in Operating Activities	<u>\$ (34,663,323)</u>	<u>\$ 44,144</u>

Rose State College
Statements of Cash Flows
Year Ended June 30, 2012 (Restated)

	Rose State College	Rose State College Foundation Inc.
Operating Activities		
Tuition and fees	\$ 4,899,838	\$ -
Grants and contracts	1,417,141	-
Payments to suppliers	(14,520,062)	(50,877)
Payments to employees	(29,332,876)	-
Foundation contributions	-	177,612
Scholarships	-	(176,203)
Auxiliary enterprises sales and services	2,407,525	-
Other operating receipts	250,331	-
Net cash used in operating activities	(34,878,103)	(49,468)
Noncapital Financing Activities		
State appropriations	20,599,612	-
Non-operating grants	14,389,086	-
Ad valorem taxes received	8,875,851	-
Ad valorem taxes remitted to Midwest City/Del City Public Schools	(4,235,341)	-
Transfer to Rose State College	58,462	-
Transfer from Tech District	(58,462)	-
Net cash provided by noncapital financing activities	39,629,208	-
Capital and Related Financing Activities		
Purchases of capital assets	(4,924,126)	-
Receipts from OCIA & ODFA for capital purchases	259,792	-
Principal paid on capital leases and bonds	(895,167)	-
Interest paid on capital leases and bonds	(128,658)	-
Capital appropriations – state	628,735	-
Ad valorem taxes received for debt service	984,881	-
Net cash used in capital and related financing activities	(4,074,543)	-
Investing Activities		
Purchase of investments	-	(15,572)
Proceeds from maturities of investments	-	15,775
Investment income received	226,527	-
Net cash provided by investing activities	226,527	203
Increase in Cash and Cash Equivalents	903,089	(49,265)
Cash and Cash Equivalents, Beginning of Year	21,346,232	54,853
Cash and Cash Equivalents, End of Year	\$ 22,249,321	\$ 5,588

Rose State College
Statements of Cash Flows
Year Ended June 30, 2012 (Restated)
(Continued)

	Rose State College	Rose State College Foundation Inc.
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Current assets		
Cash and cash equivalents	\$ 18,406,117	\$ 5,588
Restricted cash and cash equivalents	1,341,206	-
Noncurrent assets		
Restricted cash and cash equivalents	2,501,998	-
	\$ 22,249,321	\$ 5,588
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (38,677,863)	\$ (27,210)
Depreciation expense	2,749,912	-
Net unrealized gains on investments	-	(22,258)
OTRS on-behalf contributions	1,225,000	-
Changes in operating assets and liabilities		
Receivables, net	(366,988)	-
Prepaid expenses	1,882	-
Accounts payable and other accrued liabilities	194,047	-
Accrued payroll and compensated absences	12,940	-
Deferred revenue	(17,033)	-
Net Cash Used in Operating Activities	\$ (34,878,103)	\$ (49,468)

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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. 39*, the Rose State College Technical Area Education District (the District) has been 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 Vice President of Business Affairs.

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 years ended June 30, 2013 and 2012, the Foundation provided the College approximately \$134,000 and \$176,000, respectively, 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, 2013 and 2012

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 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. The College first applies unrestricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

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, 2013 and 2012 cash equivalents consisted primarily of pooled funds held by the Oklahoma State Treasurer or Office of State Finance and money market mutual funds on deposit with a trustee.

Restricted Cash

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

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

The College and the District had no investments at June 30, 2013 and 2012.

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

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.

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. Fees not collected 30 days after the end of the semester are assigned to a third-party collection agency. Delinquent receivables are written off once they become approximately a year-and-one-half-old.

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. 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:

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Land improvements and infrastructure	20 – 30 years
Buildings and improvements	20 – 40 years
Furniture, fixtures, and equipment	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. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. 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 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.

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 that are required to be maintained in perpetuity as specified by parties external to the Foundation, such as permanent endowments. 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.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the College that are applicable to a future reporting period. The College's deferred inflows of resources were comprised of revenues from the bookstore contract service concession arrangement that are applicable to future reporting periods.

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances and (2) sales and services of auxiliary enterprises.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses, and changes in net position. Scholarship 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 nonoperating 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 a scholarship allowance. The scholarship allowances on tuition and fees for the years ended June 30, 2013 and 2012, were \$10,164,515 and \$10,395,669, respectively.

Income Taxes

The College and District, as political subdivisions of the state of Oklahoma, are exempt from federal income taxes under Section 115 of the Internal Revenue Code, as amended, and a similar provision of Oklahoma state statutes. However, the College and District are subject to federal income tax on any unrelated business taxable income.

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.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events

On August 1, 2013, the District issued General Obligation Building Bonds in the amount of \$21,980,000 with a 20 year term for the purpose of making capital improvements with interest rates between 0.5% and 7.0%.

New Accounting Pronouncements

The following accounting pronouncements were implemented effective July 1, 2011:

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of the Statement is to improve financial reporting by addressing issues related to service concession arrangement (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement have improved financial reporting by standardizing the presentation of their effects on a government's net position.

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

District's Deposits

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 District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

District's Deposits (Continued)

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, 2013 and 2012, none of the District's bank balances of \$5,772,191 and \$5,380,555, respectively, were exposed to custodial credit risk as a result of being uninsured and uncollateralized. The deposits are first covered by federal depository insurance and remaining balances are collateralized with securities held by the pledging institution's trust department but not in the government's name.

College's Pooled Funds

The College maintains its cash in pooled funds held by the Oklahoma State Treasurer or Office of State Finance (OSF). 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.

At June 30, 2013 and 2012, the College had the following invested pooled funds:

OK INVEST Portfolio	2013		2012	
	Cost	Market Value	Cost	Market Value
U.S. Agency securities	\$ 2,939,866	\$ 2,927,437	\$ 2,630,557	\$ 2,638,289
Money market mutual funds	701,805	701,805	1,018,443	1,018,443
End of the day commercial paper sweep	157,195	157,195	-	-
Certificates of deposit	191,055	191,055	240,320	240,320
Mortgage backed agency securities	3,213,752	3,229,529	3,284,075	3,489,192
Municipal bonds	125,997	139,469	133,457	152,259
Foreign bonds	59,075	59,040	37,442	37,442
U.S. Treasury Obligations	90,251	110,137	96,099	119,890
TOTAL	<u>\$ 7,478,996</u>	<u>\$ 7,515,667</u>	<u>\$ 7,440,393</u>	<u>\$ 7,695,835</u>

District's Investments

The District may legally invest in direct obligations of the U.S. Treasury and the state of Oklahoma.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

District's Investments (Continued)

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation. At June 30, 2013 and 2012, the College's invested funds were rated as follows:

	Standard & Poor's	
	2013	2012
Pooled funds held by state treasurer or OSF	Not rated	Not rated

Summary of Carry Values

The carrying values of deposits and invested funds shown above are included in the statements of net position as follows:

	2013	2012
Carrying Value		
Deposits	\$ 15,476,889	\$ 14,547,486
Invested pooled funds	7,515,667	7,695,835
Change funds	6,000	6,000
	\$ 22,998,556	\$ 22,249,321

Investment Income

Investment income consisted primarily of interest income of \$255,627 and \$226,527 for the years ended June 30, 2013 and 2012, respectively.

Note 3: 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. Total accounts receivable is shown on the accompanying statements of net position, net of related allowances for doubtful accounts of approximately \$2,164,000 and \$2,385,000 at June 30, 2013 and 2012, respectively.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Long-term Liabilities

The following is a summary of long-term obligation transactions for the College for the years ended June 30, 2013 and 2012:

	2013				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds and Capital Leases					
2005 Building Bonds Payable	\$ 2,550,000	\$ -	\$ (850,000)	\$ 1,700,000	\$ -
1999/2004 OCIA lease obligation	211,320	-	(25,326)	185,994	26,597
2006 OCIA lease obligation	9,591,915	-	(348,540)	9,243,375	-
ODFA Bus Master Lease	346,333	-	(46,166)	300,167	43,250
ODFA 2009A Premium	1,783	-	(252)	1,531	252
Total Bonds and Capital Leases	<u>12,701,351</u>	<u>-</u>	<u>(1,270,284)</u>	<u>11,431,067</u>	<u>70,099</u>
Other noncurrent liabilities					
Accrued compensated absences	957,574	832,285	(831,011)	958,848	832,285
Total noncurrent liabilities	<u>\$ 13,658,925</u>	<u>\$ 832,285</u>	<u>\$ (2,101,295)</u>	<u>\$ 12,389,915</u>	<u>\$ 902,384</u>
2012					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds and Capital Leases					
2005 Building Bonds Payable	\$ 3,400,000	\$ -	\$ (850,000)	\$ 2,550,000	\$ -
1999/2004 OCIA lease obligation	235,457	-	(24,137)	211,320	25,326
2006 OCIA lease obligation	10,157,115	-	(565,200)	9,591,915	-
ODFA Bus Master Lease	391,500	-	(45,167)	346,333	42,250
ODFA 2009A Premium	2,035	-	(252)	1,783	252
Total Bonds and Capital Leases	<u>14,186,107</u>	<u>-</u>	<u>(1,484,756)</u>	<u>12,701,351</u>	<u>67,828</u>
Other noncurrent liabilities					
Accrued compensated absences	938,002	831,011	(811,439)	957,574	831,011
Total noncurrent liabilities	<u>\$ 15,124,109</u>	<u>\$ 831,011</u>	<u>\$ (2,296,195)</u>	<u>\$ 13,658,925</u>	<u>\$ 898,839</u>

2005 Building Bonds Payable

The District's Building Bonds of 2005, which were issued in July 2005, are general obligation bonds, the proceeds of which will be 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 semiannually on July 1 and January 1 at rates between 3.0% and 4.125%. Principal is due annually on July 1 through July 1, 2015. 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 therein is restricted for this purpose.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Long-term Liabilities (Continued)

2005 Building Bonds Payable (Continued)

Debt service requirements as of June 30, 2013, on the 2005 Building Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total to be Paid
2014	\$ -	\$ 29,538	\$ 29,538
2015	850,000	44,413	894,413
2016	850,000	14,874	864,874
	<u>\$ 1,700,000</u>	<u>\$ 88,825</u>	<u>\$ 1,788,825</u>

1999/2004 OCIA Lease Payable

The lease payable consists of bonds issued by the Oklahoma Capital Improvement Authority (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 20 years through August 31, 2019, 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 years ended June 30, 2013 and 2012, amounted to \$35,780 and \$35,798, respectively. 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 secures the 1999A Bond Issue but now acts as security for the 2004A Bond Issue over the term of the lease through the year 2020. As a result, there are two amortization schedules, which have been combined, related to this one lease agreement.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Long-term Liabilities (Continued)

1999/2004 OCIA Lease Payable (Continued)

The schedule principal and interest payments related to the 1999 OCIA lease at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total to be Paid
2014	\$ 26,597	\$ 9,188	\$ 35,785
2015	27,882	7,858	35,740
2016	29,222	6,519	35,741
2017	30,657	5,069	35,726
2018	32,192	3,536	35,728
2019-2020	39,444	2,203	41,647
	<u>\$ 185,994</u>	<u>\$ 34,373</u>	<u>\$ 220,367</u>

2006 OCIA Lease Payable

The lease payable consists of bonds issued by the Oklahoma Capital Improvement Authority (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. In addition, a corresponding receivable from OCIA has been recorded to reflect the amount available to the College from the bond proceeds. At June 30, 2012 the full amount of the receivable had been drawn down.

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 years ended June 30, 2013 and 2012, amounted to \$809,965 and \$1,073,873, respectively.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Long-term Liabilities (Continued)

2006 OCIA Lease Payable (Continued)

The scheduled principal and interest payments related to the 2006 OCIA lease at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total to be Paid
2014	\$ -	\$ -	\$ -
2015	-	479,596	479,596
2016	-	479,596	479,596
2017	-	480,368	480,368
2018	-	478,824	478,824
2019-2020	-	2,397,979	2,397,979
2024-2028	-	2,397,979	2,397,979
2029-2033	5,652,000	2,268,074	7,920,074
2034-2035	3,591,375	245,763	3,837,138
	<u>\$ 9,243,375</u>	<u>\$ 9,228,179</u>	<u>\$ 18,471,554</u>

2009 ODFA Lease Payable

In July 2009, the College entered into a 10 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2009A. The College financed \$481,000 (including \$2,518 in bond premium) to purchase a new bus.

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. The College paid \$58,126 and \$58,462 in principal and interest on these bonds during 2013 and 2012, respectively.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Long-term Liabilities (Continued)

2009 ODFA Lease Payable (Continued)

The scheduled principal and interest payments related to the 2009 ODFA lease at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total to be Paid
2014	\$ 43,250	\$ 9,874	\$ 53,124
2015	49,083	9,309	58,392
2016	50,167	7,764	57,931
2017	52,167	6,060	58,227
2018	54,167	4,158	58,325
2019	51,333	2,053	53,386
	<u>\$ 300,167</u>	<u>\$ 39,218</u>	<u>\$ 339,385</u>

Note 6: Retirement Plans

The College's academic and nonacademic personnel are covered by various retirement plans. The plans available to College personnel include the Oklahoma Teachers' Retirement 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 contributes to OTRS, a cost-sharing, multiple employer, defined benefit, public employee retirement system administered by a 13-member Board of Trustees appointed by the Oklahoma State Governor. Pension expense is recorded for the amount the College is required to contribute for the year as determined by the OTRS Board of Trustees or Oklahoma state statutes. OTRS issues a publicly available financial report that includes the financial statements and required supplementary information. This report may be obtained by writing to the Oklahoma Teachers' Retirement System at P.O. Box 53524, Oklahoma City, Oklahoma 73152 or calling (405) 521-2387.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 6: Retirement Plans (Continued)

OTRS provides defined retirement benefits based on members' final compensation, age, and term of service for all qualified persons employed by state-supported educational institutions. In addition, OTRS provides for benefits upon disability and to survivors upon death of eligible members. OTRS does not provide for a cost-of-living adjustment. Oklahoma Statute, Title 70 O.S., Section 17-105, defines all retirement benefits under OTRS. The authority to establish or amend benefit provisions rests with the Oklahoma State Legislature.

Funding Policy

The authority to define or amend employer contribution rates is given to the OTRS Board of Trustees by Oklahoma Statute, Title 70, Section 17-106; all other contribution rates are defined or amended by the Oklahoma State Legislature. For each of the years ended June 30, 2013, 2012, and 2011, OTRS members were required to contribute 7% of their regular annual compensation, not to exceed the member's maximum compensation level. The College is required to contribute a fixed percentage of annual compensation on behalf of active OTRS members. The employer contribution rate was 9.50% for 2013, 2012, and 2011. The College's contributions to OTRS for the years ended June 30, 2013, 2012, and 2011, were approximately \$3,698,000, \$3,621,000, and \$3,683,000, respectively, which equaled to required contributions for the years.

Oklahoma statutes require the state of Oklahoma to contribute to OTRS a defined percentage of the natural and casing head gas tax (the dedicated tax) collected each year. The dedicated tax contribution to OTRS is used toward the College's required fixed percentage contribution. The College recognizes these on-behalf payments made to OTRS by the state of Oklahoma under the provisions of GASB Statement No. 24. These on-behalf payments do not represent a direct or indirect obligation of the College. For the years ended June 30, 2013 and 2012, the total amount contributed to OTRS by the state of Oklahoma on behalf of the College was approximately \$1,295,000 and \$1,225,000, respectively. The on-behalf payment has been recorded as both a nonoperating state appropriation revenue and compensation expense.

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 each of the years ended June 30, 2013 and 2012, was 2.5% of an eligible employee's annual base salary (as defined in the plan document). Contributions made by the College during 2013 and 2012 totaled approximately \$451,000 and \$370,000, respectively.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

The Governing Board of the District has authorized the payment of monies in fiscal year 2013 and 2012 to Mid-Del for the cost of providing various technical area educational programs. Such payment from the proceeds of the ad valorem tax levies (*Note 1*) is to be made at an amount which is the lesser of (a) 60% of the net collections from the Mid-Del net valuation for the respective fiscal year or (b) 50% of total collections for the respective fiscal year. For the years ended June 30, 2013 and 2012, the District incurred \$4,378,510 and \$4,415,198, respectively, of non-operating expense related to the support of Mid-Del. At June 30, 2013 and 2012, the District owed to Mid-Del \$576,983 and \$799,653, respectively, which is included in accounts payable.

Note 8: 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 Program does not require the College to draw down cash; however, 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, 2013 and 2012, approximately \$11,586,000 and \$12,992,000, respectively, 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, 2013, will not have a material adverse impact on the College's financial position.

Note 9: 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, as a state agency, participates in the Oklahoma State and Education Employee's Group Insurance Board (the Plan), a public entity risk pool. The College pays an annual premium to the Plan through member premiums. The College carries insurance with the State Insurance Fund for other risks of loss, including workers' compensation and employee accident and health insurance.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 10 – Post-Employment Benefit Plans

Since January, 2011, the College has been a member of the Oklahoma Higher Education Employee Insurance Group (OKHEEI Group), a consortium of higher education institutions, and has used this group for all employee and retiree benefit plans and administration.

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

1. OKHEEI Group OPEB Plan – a single employer defined benefit health, dental and vision care plan
2. College President's OPEB Plan – a single employer defined benefit healthcare and long-term care plan

OKHEEI Group OPEB Plan

A. General Description of the Other Postemployment Benefit Plan

Rose State College provides postemployment healthcare benefits to its retirees through a single-employer, defined benefit, other postemployment benefit (OPEB) plan administered by the Oklahoma Higher Education Employee Insurance Group (OKHEEI Group). The OKHEEI Group membership is comprised of Oklahoma colleges, universities or auxiliary institutions bound together by interlocal agreement, complying with the Interlocal Cooperation Act as provided by 74 O.S. 2001, § 1004 (f), with the purpose of more effectively and economically securing employee benefits for members' employees. Members of the OKHEEI Group are required to show continuing membership with annual approval, by action of its governing body, to participate in any policy or service plan being offered by the Group. The interlocal agreement creating the OKHEEI Group, as approved by the Office of the Attorney General for the State of Oklahoma, is on file with the appropriate County Clerk and the Secretary of State. The OKHEEI Group administers group health, dental and vision insurance for active employees and retirees of group members. The OKHEEI Group plan provides coverage for retiree dependents when so elected.

The OKHEEI Group is governed by a Board of Trustees comprised of one representative from each member institution. The OKHEEI Group Board of Trustees has the authority to amend any plan structure, negotiate with providers, set premium or contribution rates each year and fulfill the fiduciary responsibility of overseeing and operating the plans, policies and services offered including managing funds and assets contributed by each participating institution's management and employees. Currently the board has established a series of blended rates for both active employees and retirees. Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB-45) defines most situations where retirees pay the same or similar premiums as current active employees for health coverage as an implicit rate subsidy, and consequently as OPEB, subject to the GASB-45 accounting and reporting standards.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 10 – Post-Employment Benefit Plans (Continued)

OKHEEI Group OPEB Plan (Continued)

The OKHEEI Group serves as a consortium contracting for health care benefits for member employees; both current employees and retirees. Therefore, the assets and liabilities related to retirees are not segregated from the remaining assets and liabilities of the insurance plan. As such, the OKHEEI Group does not consider itself an OPEB plan pursuant to the definitions of GASB-43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

B. Funding Policy

For participating current active employees, the College pays the full premium for employee only coverage, while the employee pays any additional premium for elected dependant coverage through a payroll deduction. For retirees electing to be covered by the defined benefit plan upon retirement, the retiree premiums are paid directly to a third party processor, HealthSmart, through a combination of contributions made by the Teachers Retirement System and personal check or electronic payments made to HealthSmart, by retirees, on a monthly basis. These contributions account for 100% of the OKHEEI Group required premiums and Rose State College does not incur any additional pay-as-you-go cost in regards to these retiree benefits. For the calendar year ending December 31, 2013, the OKHEEI Group required premiums for employee only coverage, consisting of health, dental and vision insurance, ranged from \$418 to \$539 for active employees. Retirees under age 65 pay the same premium for coverage but no funding is provided by the College. For retirees age 65 and over, supplemental Medicare policies are available with monthly premiums ranging from \$216 to \$1,566 depending on elected options and dependant coverage with no funding provided by the College.

C. Funded Status and Funding Progress

While active employees and retirees pay a series of blended premiums as established by the OKHEEI Group, the College believes that any annual OPEB cost that may result from this implicit rate subsidy, as defined by GASB-45, is immaterial. Therefore, no actuarial valuation has been performed to quantify any OPEB annual cost and OPEB obligation, or report the funding status and funding progress for Rose State College as employer for this OPEB plan.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 10 – Post-Employment Benefit Plans (Continued)

College President's OPEB Plan

A. General Description of the Other Postemployment Benefit Plan

Rose State College, through employment contracts, provides post-employment healthcare and long term care benefits to retired College Presidents. These benefits are provided through a single-employer defined benefit plan arrangement defined in those College Presidents' employment contracts as approved by the College's Board of Regents. The plan does not issue separate financial statements. The Rose State College Board of Regents has the sole authority to define the benefits, plan structure, and set premium rates for contributions to the plan. The plan currently covers three retired Presidents.

The current active College President's employment contract specifies that employment benefits mirror all other regular professional employees and those benefits accrue and are payable only during the period that the President is employed by the Board. No OPEB benefits exist beyond the period of employment other than the OKHEEI Group OPEB Plan, previously discussed, which applies to retirees.

B. Funding Policy and Actuarial Methods and Assumptions

Rose State College has not established a formal trust to advance fund these accrued benefits but funds these OPEB costs on a pay-as-you-go basis. Amounts paid by Rose State College for these post-employment benefits for the last three fiscal years are as follows: 2011 \$49,130, 2012 \$49,337 and 2013 \$49,024.

C. Funded Status and Funding Progress

Actuarial information for this plan as of June 30, 2013, indicates that the present value of future projected benefits under this plan amounts to \$567,767 using an 8% discount rate and 1983 Group Annuity Table. Because the College has not established a trust or trust equivalent to advance fund these benefits and no plan assets have been irrevocably set aside to pay them, the College continues to fund and report these benefits on a pay-as-you-go basis. The College has determined that the difference between these pay-as-you go costs and the OPEB annual cost and any OPEB obligation as defined by GASB Statement 45 are immaterial; therefore no net OPEB obligation is reported nor is any funding status and funding progress information reported by the College in regards to this plan.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 11 – Service Concession Arrangement

On August 1, 2012, the College entered into an agreement with Follett Higher Education Group (Follett), under which Follett will operate the bookstore for the next 10 years. 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 is estimated to be \$341,000. Follett will also pay the College 14 percent of the first \$3 million of annual revenues, 14.5 percent of annual revenues between \$3-4 million, and 15 percent 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 approximately \$310,000 at June 30, 2013 pursuant to the service concession arrangement.

Note 12 – Prior Period Adjustments

During the current year, management determined that certain assets were not properly recorded as of July 1, 2011 and June 30, 2012. The following is a summary of the corrections made:

	<u>College</u>	<u>District</u>	<u>Total</u>
Beginning net position as of 7-1-11 as previously reported	\$ 28,421,390	\$ 17,084,356	\$ 45,505,746
Under (Over) stated capital assets, net of accumulated depreciation	<u>(92,320)</u>	<u>565,022</u>	<u>472,702</u>
Beginning net position as of 7-1-11, restated	<u>\$ 28,329,070</u>	<u>\$ 17,649,378</u>	<u>\$ 45,978,448</u>
	<u>College</u>	<u>District</u>	<u>Total</u>
Ending net position as of 6-30-12 as previously reported	\$ 30,606,064	\$ 20,516,177	\$ 51,122,241
Under capitalization of the Health/Environmental Sciences Building Sign	358,000	210,769	568,769
Understated capital assets, net of accumulated depreciation adjusted back to FY11	(92,320)	565,022	472,702
Less change in depreciation expense in FY12 due to prior period adjustment of capital assets in FY11	<u>13,158</u>	<u>(60,094)</u>	<u>(46,936)</u>
Ending net position as of 6-30-12, restated	<u>\$ 30,884,902</u>	<u>\$ 21,231,874</u>	<u>\$ 52,116,776</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 12 – Prior Period Adjustments (Continued)

Capital assets net of accumulated depreciation – As a result of reviewing capital assets inventory, it was discovered that certain capital asset costs and accumulated depreciation had not been properly allocated causing an understatement of capital assets of \$472,702. The issue was discovered and corrected in FY2013 as a prior period adjustment to beginning net position of FY2012.

Also, in FY2013 it was discovered that FY2012 building improvements had been understated by \$568,769 for the Health/Environmental Science Building Sign that was not properly capitalized in FY2012. This issue was corrected in FY2013 as a prior period adjustment to ending net position of FY2012.

Note 13 – Illustrative Disclosure of 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 on the following pages.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

As of and for year ended June 30, 2013

	College	District	Total
CONDENSED STATEMENT OF NET POSITION			
ASSETS			
Current assets	\$ 18,453,612	\$ 6,118,221	\$ 24,571,833
Capital assets, net	24,820,662	18,964,551	43,785,213
Other assets	933,557	-	933,557
Total assets	<u>44,207,831</u>	<u>25,082,772</u>	<u>69,290,603</u>
LIABILITIES			
Current liabilities	1,887,442	1,375,313	3,262,755
Non-current liabilities	9,787,531	1,700,000	11,487,531
Total liabilities	<u>11,674,973</u>	<u>3,075,313</u>	<u>14,750,286</u>
DEFERRED INFLOW	<u>309,931</u>	<u>-</u>	<u>309,931</u>
NET POSITION			
Net investment in capital assets	15,089,595	17,264,551	32,354,146
Restricted	5,847,351	1,033,737	6,881,088
Unrestricted	<u>11,285,981</u>	<u>3,709,171</u>	<u>14,995,152</u>
Total net position	<u>\$ 32,222,927</u>	<u>\$ 22,007,459</u>	<u>\$ 54,230,386</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Operating Revenues	\$ 9,019,502	\$ -	\$ 9,019,502
Depreciation	(1,907,794)	(1,054,759)	(2,962,553)
Other operating expenses	<u>(42,586,973)</u>	<u>(2,134,556)</u>	<u>(44,721,529)</u>
Operating Income (loss)	<u>(35,475,265)</u>	<u>(3,189,315)</u>	<u>(38,664,580)</u>
Non-operating Revenues (Expenses)			
State appropriations	19,864,583	-	19,864,583
Federal grants	11,725,693	-	11,725,693
State grants	1,339,305	-	1,339,305
OTRS on-behalf contributions	1,295,000	-	1,295,000
Ad valorem taxes	-	9,773,961	9,773,961
Ad valorem taxes remitted to Midwest City/Del			
City Public Schools	-	(4,378,510)	(4,378,510)
Miscellaneous revenue	-	5,650	5,650
Investment revenue	246,152	9,475	255,627
Interest on capital asset-related debt	(490,049)	(87,550)	(577,599)
Capital appropriations - state	628,735	-	628,735
OCIA debt services on-behalf payments	845,745	-	845,745
Transfers from (to)	<u>1,358,126</u>	<u>(1,358,126)</u>	<u>-</u>
Change in net position	1,338,025	775,585	2,113,610
Beginning net position (restated)	30,884,902	21,231,874	52,116,776
Ending net position	<u>\$ 32,222,927</u>	<u>\$ 22,007,459</u>	<u>\$ 54,230,386</u>
CONDENSED STATEMENT OF CASH FLOWS			
Net cash provided (used) by:			
Operating activities	\$ (32,494,638)	\$ (2,168,685)	\$ (34,663,323)
Noncapital financing activities	34,287,707	2,796,887	37,084,594
Capital and related financing activities	(1,664,690)	(250,148)	(1,914,838)
Investing activities	<u>233,327</u>	<u>9,475</u>	<u>242,802</u>
Net increase	361,706	387,529	749,235
Cash and Cash Equivalents, Beginning of Year	16,868,766	5,380,555	22,249,321
Cash and Cash Equivalents, End of Year	<u>\$ 17,230,472</u>	<u>\$ 5,768,084</u>	<u>\$ 22,998,556</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

As of and for year ended June 30, 2012 (Restated)

	<u>College</u>	<u>District</u>	<u>Total</u>
CONDENSED STATEMENT OF NET POSITION			
ASSETS			
Current assets	\$ 16,462,055	\$ 5,628,899	\$ 22,090,954
Capital assets, net	24,493,156	19,343,731	43,836,887
Other assets	2,508,461	-	2,508,461
Total assets	<u>43,463,672</u>	<u>24,972,630</u>	<u>68,436,302</u>
LIABILITIES			
Current liabilities	2,368,684	1,190,756	3,559,440
Non-current liabilities	10,210,086	2,550,000	12,760,086
Total liabilities	<u>12,578,770</u>	<u>3,740,756</u>	<u>16,319,526</u>
NET POSITION			
Net investment in capital assets	14,348,268	16,793,731	31,141,999
Restricted	7,593,128	1,341,206	8,934,334
Unrestricted	<u>8,943,506</u>	<u>3,096,937</u>	<u>12,040,443</u>
Total net position	<u>\$ 30,884,902</u>	<u>\$ 21,231,874</u>	<u>\$ 52,116,776</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Operating Revenues	\$ 9,358,857	\$ -	\$ 9,358,857
Depreciation	(1,713,217)	(1,036,695)	(2,749,912)
Other operating expenses	(42,784,975)	(2,501,833)	(45,286,808)
Operating Income (loss)	<u>(35,139,335)</u>	<u>(3,538,528)</u>	<u>(38,677,863)</u>
Non-operating Revenues (Expenses)			
State appropriations	20,599,612	-	20,599,612
Federal grants	12,970,462	-	12,970,462
State grants	1,418,624	1,997,346	3,415,970
OTRS on-behalf contributions	1,225,000	-	1,225,000
Ad valorem taxes	-	9,704,447	9,704,447
Ad valorem taxes remitted to Midwest City/Del City Public Schools	-	(4,415,198)	(4,415,198)
Miscellaneous revenue	-	-	-
Investment revenue	218,273	8,254	226,527
Interest on capital asset-related debt	(533,672)	(115,363)	(649,035)
Capital appropriations - state	628,735	-	628,735
OCIA debt services on-behalf payments	1,109,671	-	1,109,671
Transfers from (to)	58,462	(58,462)	-
Change in net position	<u>2,555,832</u>	<u>3,582,496</u>	<u>6,138,328</u>
Beginning net position	28,329,070	17,649,378	45,978,448
Ending net position	<u>\$ 30,884,902</u>	<u>\$ 21,231,874</u>	<u>\$ 52,116,776</u>
CONDENSED STATEMENT OF CASH FLOWS			
Net cash provided (used) by:			
Operating activities	\$ (32,468,763)	\$ (2,409,340)	\$ (34,878,103)
Noncapital financing activities	35,047,160	4,582,048	39,629,208
Capital and related financing activities	(3,384,524)	(690,019)	(4,074,543)
Investing activities	218,273	8,254	226,527
Net increase (decrease)	<u>(587,854)</u>	<u>1,490,943</u>	<u>903,089</u>
Cash and Cash Equivalents, Beginning of Year	17,456,620	3,889,612	21,346,232
Cash and Cash Equivalents, End of Year	<u>\$ 16,868,766</u>	<u>\$ 5,380,555</u>	<u>\$ 22,249,321</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

Note 14 – Rose State College Foundation, Inc.

Note A – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Rose State College Foundation, Inc. (the Foundation) is a not-for-profit organization whose mission and principal activities are to promote the educational and cultural interest of Rose State College (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.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note A – Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Funds Held by Oklahoma State Regents' Endowment Trust

The Foundation has invested through the Oklahoma State Regents' Endowment Trust various funds donated or raised for specific temporarily or permanently restricted donor-imposed purposes or internally designated unrestricted purposes. The State Regents maintain the Foundation's invested funds in pooled investments and may, at its discretion, provide matching funds to be invested. The Foundation has access to its invested funds and related earnings thereon, but does not have access to the State Regents' matched funds and thus, the matched funds are not reflected on the Foundation's financial statements. At June 30, 2013 and 2012, matching funds held by the State Regents were approximately \$1,827,000 and \$1,851,000. The earnings from the Foundation's invested funds and any State Regents' matching funds are available for annual distribution to the College for the specified restricted purposes. During 2013 and 2012, the College received approximately \$88,000 and \$85,000, respectively in distributions from the earnings on these funds.

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 activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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 activities 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, place on the items at the time of acquisition.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note A – Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Net Assets/Position

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of The Foundation. The restrictions stipulate that resources be maintained permanently but permit The Foundation to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note A – Nature of Operations and Summary of Significant Accounting Policies
(Continued)

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 organizations described in Section 501(c)(3), qualify 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 would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note B – Investment Return

Total investment return is comprised of the following for the years ended June 30, 2013 and 2012:

	2013	2012 Restated
Interest and dividends	\$ 13,136	\$ 119
Net realized and unrealized gain	124,314	22,258
Less investment management and custodial fees	(3,563)	(231)
	\$ 133,887	\$ 22,146

Note C – Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note C – Fair Value Measurements and Disclosures (Continued)

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

A portion of the Foundation's investment assets are classified within Level 1 because they are comprised of equity securities and mutual funds with readily determinable fair values based on closing market prices and daily redemption values. The Foundation also invests in Commonfund, a fund traded in the financial markets. That fund is valued by the custodian of the fund using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and is classified within Level 2. There are no investments considered to be Level 3 measurements.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note C – Fair Value Measurements and Disclosures (Continued)

The following table presents assets measured at fair value on a recurring basis, at June 30, 2013 and 2012:

		<u>Fair Value Measurements at Report Date Using</u>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2013</u>	<u>Total</u>			
<u>Assets</u>				
Investments:				
Common funds				
Fixed income	\$ 79,553	\$ -	\$ 79,553	\$ -
Equity	713,842	-	713,842	-
	<u>\$ 793,395</u>	<u>\$ -</u>	<u>\$ 793,395</u>	<u>\$ -</u>
 <u>June 30, 2012</u>				
<u>Assets</u>				
Investments:				
Equity securities	\$ 33,614	\$ 33,614	\$ -	\$ -
Common funds				
Fixed income	101,273	-	101,273	-
Equity	614,066	-	614,066	-
	<u>\$ 748,953</u>	<u>\$ 33,614</u>	<u>\$ 715,339</u>	<u>\$ -</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note D – Historical Properties

Historical properties consists of the following at June 30, 2013 and 2012:

	2013	2012
Atkinson Historical Center	\$ 1,400,000	\$ 1,400,000
Atkinson Land	850,000	850,000
Artwork - Sculpture	7,000	7,000
	\$ 2,257,000	\$ 2,257,000

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

Note E – Restricted Net Assets/Position

Temporarily Restricted

Temporarily restricted net assets at December 31, 2013 and 2012, consist of funds restricted by donors for scholarships in the amounts of \$631,621 and \$543,026, respectively.

Net assets released from restrictions related to scholarships were \$54,011 and \$176,203 in 2013 and 2012, respectively.

Permanently Restricted

Permanently restricted net assets consist of endowment funds restricted by donors, the Atkinson Heritage Center property of \$2.25 million, and artwork of \$7,000. Earnings on endowment funds are available for the purposes specified by the donors, or in certain cases, for the unrestricted use of the Foundation. The permanently restricted net asset balances, classified by restriction on the use of earnings, are investments in perpetuity, the income of which is expendable to support scholarships and are approximately \$453,000 as of June 30, 2013 and 2012.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note F - Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2013 and 2012:

	2013	2012 Restated
Scholarships and awards	\$ 134,123	\$ 176,203
Total program expenses	\$ 134,123	\$ 176,203
Management and general (includes investment management fees of \$3,563 and \$231 in 2013 and 2012, respectively)	\$ 193,215	\$ 101,479
Fundraising and development (includes cost of direct benefits to donors of \$18,202 and \$0 in 2013 and 2012, respectively)	23,660	27,517
Total functionalized expenses	\$ 350,998	\$ 305,199

Note G – 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, 2013 and 2012 are reported in the Foundation's financial statements as scholarships, awards, and programs of \$134,123 and \$176,203, respectively. At June 30, 2013 and 2012, the Foundation had scholarship, awards and programs payable to the College of \$34,000.

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 2013 and 2012, 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 2013 and 2012, approximately \$153,000 and \$70,000, respectively, 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 statements of activities.

The accounting and bookkeeping services are provided to the Foundation at no cost from a company owned by a member of the Foundation's Board of Trustees. The value of those donated services has not been recorded in the Foundation's financial statements as revenue and expense as the amount is not readily determinable.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note G – Related Party Transactions (Continued)

The Foundation has entered into an operating lease with the College for the Atkinson Historical 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 executor costs (maintenance, insurance, etc.) related to the property.

Note H – Endowments

The Foundation endowments consist of approximately 140 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net position associated with endowment funds, including funds designated by the Board of Directors 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 permanently restricted 1) the original value of gifts donated to the endowment, 2) the original value of subsequent gifts donated to the endowment, 3) all realized and unrealized gains and losses of the endowment, and 4) less any income distribution in accordance with the spending policy which will be classified as temporarily restricted. In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The 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 level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note H – 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. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for 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, 2013 and 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2013</u>				
Endowment net assets, beginning of year	\$ (98,630)	\$ -	\$ 452,077	\$ 353,447
Contributions	-	-	1,548	1,548
Net investment return	24,746	-	-	24,746
Endowment net assets, end of year	<u>\$ (73,884)</u>	<u>\$ -</u>	<u>\$ 453,625</u>	<u>\$ 379,741</u>
<u>June 30, 2012 (Restated)</u>				
Endowment net assets, beginning of year	\$ (110,089)	\$ -	\$ 452,077	\$ 341,988
Net investment return	11,459	-	-	-
Endowment net assets, end of year	<u>\$ (98,630)</u>	<u>\$ -</u>	<u>\$ 452,077</u>	<u>\$ 341,988</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note J – Restatement

During the year ended June 30, 2013, the Foundation determined that temporarily and permanently restricted contributions recorded in prior periods and the related restricted investments had been incorrectly presented in the financial statements. This is primarily due to the improper inclusion endowment investments in the Foundation's financial statements which should have not been recorded. Additionally, several restricted net assets were improperly recorded as to type of restrictions (temporarily or permanently).

As of July 1, 2011, this resulted in an \$820,541 decrease in permanently restricted net assets, a \$949,581 decrease in temporarily restricted net assets, and a \$760,279 increase in unrestricted net assets.

The following summarizes the impact of these changes to the financial statements for the year ended June 30, 2012 as a result of the restatements.

<u>Statement of Financial Position</u>	<u>As previously Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
Funds held by State Regents'			
Endowment Trust	\$ 925,781	\$ -	\$ (925,781)
All other assets	3,033,139	3,033,139	-
Total assets	<u>3,958,920</u>	<u>3,033,139</u>	<u>(925,781)</u>
Total liabilities	<u>34,000</u>	<u>34,000</u>	<u>-</u>
Net Assets			
Unrestricted	(1,060,740)	(252,964)	807,776
Temporarily restricted	1,456,132	543,026	(913,106)
Permanently restricted	<u>3,529,528</u>	<u>2,709,077</u>	<u>(820,451)</u>
Total net assets	<u>\$ 3,924,920</u>	<u>\$ 2,999,139</u>	<u>\$ (925,781)</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note J – Restatement (Continued)

<u>Statement of Activities</u>	<u>As previously Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
Unrestricted:			
Beginning net assets (July 1, 2011)	\$ (1,011,108)	\$ (250,829)	\$ 760,279
Contributions	25,664	26,484	(820)
Investment return	(24,531)	22,146	(46,677)
Inkind contributions	78,000	78,000	-
Net assets released from restrictions	176,203	176,203	-
Less expenses:			
Program expenses	176,203	176,203	-
Management and general expenses	128,031	128,765	734
Fundraising expenses	734	-	(734)
Total expenses	<u>304,968</u>	<u>304,968</u>	<u>-</u>
Ending net assets, June 30, 2012	<u>\$ (1,060,740)</u>	<u>\$ (252,964)</u>	<u>\$ 712,782</u>
Temporarily restricted:			
Beginning net assets (July 1, 2011)	\$ 1,517,682	\$ 568,101	\$ (949,581)
Contributions	151,129	151,128	(1)
Unrealized loss on State Regent Endowment Trust	(36,476)	-	36,476
Net assets released from restrictions	<u>(176,203)</u>	<u>(176,203)</u>	<u>-</u>
Ending net assets, June 30, 2012	<u>\$ 1,456,132</u>	<u>\$ 543,026</u>	<u>\$ (913,106)</u>
Permanently restricted:			
Beginning net assets (July 1, 2011)	<u>\$ 3,529,528</u>	<u>\$ 2,709,077</u>	<u>\$ (820,451)</u>
Ending net assets, June 30, 2012	<u>\$ 3,529,528</u>	<u>\$ 2,709,077</u>	<u>\$ (820,451)</u>

Rose State College
Notes to Financial Statements
June 30, 2013 and 2012

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

Note J – Restatement (Continued)

<u>Statement of Cash Flows</u>	<u>As previously Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
Operating Activities			
Change in net assets	\$ (111,182)	\$ (27,210)	\$ 83,972
Net realized and unrealized gain/loss	61,007	(22,258)	(83,265)
Change in payables	(40,257)	-	40,257
Net cash used for operating activities	<u>(90,432)</u>	<u>(49,468)</u>	<u>40,964</u>
Investing Activities			
Proceeds from disposition of investments	41,167	15,775	(25,392)
Purchase of investments	-	(15,572)	(15,572)
Net cash from investing activities	<u>41,167</u>	<u>203</u>	<u>(40,964)</u>
Net Change in Cash	<u>\$ (49,265)</u>	<u>\$ (49,265)</u>	<u>\$ -</u>

Supplementary Information

Rose State College
Combining Schedule of Net Position
June 30, 2013

	<u>College</u>	<u>District</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 16,572,725	\$ 4,294,747	\$ 20,867,472
Restricted:			
Cash and cash equivalents	-	1,473,337	1,473,337
Accounts receivable, net	1,167,855	43,140	1,210,995
Federal and state grants receivable	700,207	-	700,207
Delinquent ad valorem property taxes receivable	-	301,000	301,000
Accrued interest receivable	12,825	-	12,825
Prepaid Expenses	-	5,997	5,997
Total current assets	<u>18,453,612</u>	<u>6,118,221</u>	<u>24,571,833</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	657,747	-	657,747
Accounts receivable	275,810	-	275,810
Capital Assets, net	24,820,662	18,964,551	43,785,213
Total non-current assets	<u>25,754,219</u>	<u>18,964,551</u>	<u>44,718,770</u>
Total assets	<u>44,207,831</u>	<u>25,082,772</u>	<u>69,290,603</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	324,987	935,713	1,260,700
Accrued compensated absences	832,285	-	832,285
Unearned revenue	415,617	-	415,617
Current maturities of long-term debt	70,099	-	70,099
Deposits held pending bond issuance	-	439,600	439,600
Deposits held in custody for others	244,454	-	244,454
Total current liabilities	<u>1,887,442</u>	<u>1,375,313</u>	<u>3,262,755</u>
Non-current liabilities:			
Accrued compensated absences	126,563	-	126,563
Long-term debt	9,660,968	1,700,000	11,360,968
Total non-current liabilities	<u>9,787,531</u>	<u>1,700,000</u>	<u>11,487,531</u>
Total liabilities	<u>11,674,973</u>	<u>3,075,313</u>	<u>14,750,286</u>
DEFERRED INFLOWS			
Bookstore service concession arrangement	<u>309,931</u>	-	<u>309,931</u>
NET POSITION			
Net investment in capital assets	15,089,595	17,264,551	32,354,146
Restricted expendable for:			
Scholarships	5,189,604	-	5,189,604
Loans	5,351	-	5,351
Capital projects	113,411	982,251	1,095,662
Debt service	538,985	51,486	590,471
Unrestricted	<u>11,285,981</u>	<u>3,709,171</u>	<u>14,995,152</u>
Total net position	<u>\$ 32,222,927</u>	<u>\$ 22,007,459</u>	<u>\$ 54,230,386</u>

Rose State College
Combining Schedule of Net Position
June 30, 2012

	<u>College</u>	<u>District</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 14,366,768	\$ 4,039,349	\$ 18,406,117
Restricted:			
Cash and cash equivalents	-	1,341,206	1,341,206
Accounts receivable, net	1,191,291	36,103	1,227,394
Federal and state grants receivable	903,996	-	903,996
Delinquent ad valorem property taxes receivable	-	208,000	208,000
Prepaid Expenses	-	4,241	4,241
Total current assets	<u>16,462,055</u>	<u>5,628,899</u>	<u>22,090,954</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	2,501,998	-	2,501,998
Unamortized bond issuance costs	6,463	-	6,463
Capital Assets, net	<u>24,493,156</u>	<u>19,343,731</u>	<u>43,836,887</u>
Total non-current assets	<u>27,001,617</u>	<u>19,343,731</u>	<u>46,345,348</u>
Total assets	<u>43,463,672</u>	<u>24,972,630</u>	<u>68,436,302</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	579,806	1,190,756	1,770,562
Accrued compensated absences	831,011	-	831,011
Unearned revenue	536,866	-	536,866
Current maturities of long-term debt	67,828	-	67,828
Deposits held in custody for others	<u>353,173</u>	<u>-</u>	<u>353,173</u>
Total current liabilities	<u>2,368,684</u>	<u>1,190,756</u>	<u>3,559,440</u>
Non-current liabilities:			
Accrued compensated absences	126,563	-	126,563
Long-term debt	<u>10,083,523</u>	<u>2,550,000</u>	<u>12,633,523</u>
Total non-current liabilities	<u>10,210,086</u>	<u>2,550,000</u>	<u>12,760,086</u>
Total liabilities	<u>12,578,770</u>	<u>3,740,756</u>	<u>16,319,526</u>
NET POSITION			
Net investment in capital assets	14,348,268	16,793,731	31,141,999
Restricted expendable for:			
Scholarships	5,091,130	-	5,091,130
Loans	5,213	-	5,213
Capital projects	1,604,377	1,275,837	2,880,214
Debt service	892,408	65,369	957,777
Unrestricted	<u>8,943,506</u>	<u>3,096,937</u>	<u>12,040,443</u>
Total net position (restated)	<u>\$ 30,884,902</u>	<u>\$ 21,231,874</u>	<u>\$ 52,116,776</u>

Rose State College
Combining Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2013

	<u>College</u>	<u>District</u>	<u>Total</u>
Operating Revenues			
Tuition and fees, net	\$ 4,907,988	\$ -	\$ 4,907,988
Federal grants and contracts	1,112,939	-	1,112,939
State and private grants and contracts	463,758	-	463,758
Sales and services of auxiliary enterprises, net	2,340,082	-	2,340,082
Other operating revenues	194,735	-	194,735
Total operating revenues	<u>9,019,502</u>	<u>-</u>	<u>9,019,502</u>
Operating Expenses			
Compensation and benefits	31,391,649	-	31,391,649
Contractual services	2,791,116	411,584	3,202,700
Supplies and materials	3,855,975	304,831	4,160,806
Scholarships and fellowships	3,030,959	-	3,030,959
Communications	119,355	-	119,355
Depreciation	1,907,794	1,054,759	2,962,553
Utilities	521,969	650,511	1,172,480
Other	875,950	767,630	1,643,580
Total Operating Expenses	<u>44,494,767</u>	<u>3,189,315</u>	<u>47,684,082</u>
Operating loss	<u>(35,475,265)</u>	<u>(3,189,315)</u>	<u>(38,664,580)</u>
Non-operating Revenues (Expenses)			
State appropriations	19,864,583	-	19,864,583
Federal grants	11,725,693	-	11,725,693
State grants	1,339,305	-	1,339,305
OTRS on-behalf contributions	1,295,000	-	1,295,000
Ad valorem taxes	-	9,773,961	9,773,961
Ad valorem taxes remitted to Midwest City/Del City Public Schools	-	(4,378,510)	(4,378,510)
Miscellaneous revenue	-	5,650	5,650
Investment revenue	246,152	9,475	255,627
Interest on capital asset-related debt	(490,049)	(87,550)	(577,599)
Net non-operating revenue	<u>33,980,684</u>	<u>5,323,026</u>	<u>39,303,710</u>
Net Income (loss) before other revenues, expenses, gains, losses and transfers	(1,494,581)	2,133,711	639,130
Capital appropriations - state	628,735	-	628,735
OCIA debt services on-behalf payments	845,745	-	845,745
Transfers from (to)	1,358,126	(1,358,126)	-
Increase in Net Position	1,338,025	775,585	2,113,610
Net Position, Beginning of Year, restated	<u>30,884,902</u>	<u>21,231,874</u>	<u>52,116,776</u>
Net Position, End of Year	<u>\$ 32,222,927</u>	<u>\$ 22,007,459</u>	<u>\$ 54,230,386</u>

Rose State College
Combining Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2012 (Restated)

	<u>College</u>	<u>District</u>	<u>Total</u>
Operating Revenues			
Tuition and fees, net	\$ 4,876,199	\$ -	\$ 4,876,199
Federal grants and contracts	1,575,776	-	1,575,776
State and private grants and contracts	290,669	-	290,669
Sales and services of auxiliary enterprises, net	2,407,525	-	2,407,525
Other operating revenues	208,688	-	208,688
Total operating revenues	<u>9,358,857</u>	<u>-</u>	<u>9,358,857</u>
Operating Expenses			
Compensation and benefits	30,570,816	-	30,570,816
Contractual services	2,604,664	600,459	3,205,123
Supplies and materials	2,543,717	239,652	2,783,369
Scholarships and fellowships	5,575,215	-	5,575,215
Communications	138,845	-	138,845
Depreciation	1,713,217	1,036,695	2,749,912
Utilities	569,945	767,632	1,337,577
Other	781,773	894,090	1,675,863
Total Operating Expenses	<u>44,498,192</u>	<u>3,538,528</u>	<u>48,036,720</u>
Operating loss	<u>(35,139,335)</u>	<u>(3,538,528)</u>	<u>(38,677,863)</u>
Non-operating Revenues (Expenses)			
State appropriations	20,599,612	-	20,599,612
Federal grants	12,970,462	-	12,970,462
State grants	1,418,624	1,997,346	3,415,970
OTRS on-behalf contributions	1,225,000	-	1,225,000
Ad valorem taxes	-	9,704,447	9,704,447
Ad valorem taxes remitted to Midwest City/Del City Public Schools	-	(4,415,198)	(4,415,198)
Investment revenue	-	-	-
Investment revenue	218,273	8,254	226,527
Interest on capital asset-related debt	(533,672)	(115,363)	(649,035)
Net non-operating revenue	<u>35,898,299</u>	<u>7,179,486</u>	<u>43,077,785</u>
Net income before other revenues, expenses, gains, losses and transfers	758,964	3,640,958	4,399,922
Capital appropriations - state	628,735	-	628,735
OCIA debt services on-behalf payments	1,109,671	-	1,109,671
Transfers from (to)	58,462	(58,462)	-
Increase in Net Position	2,555,832	3,582,496	6,138,328
Net Position, Beginning of Year	<u>28,329,070</u>	<u>17,649,378</u>	<u>45,978,448</u>
Net Position, End of Year	<u>\$ 30,884,902</u>	<u>\$ 21,231,874</u>	<u>\$ 52,116,776</u>

Rose State College
Statements of Revenues and Expenses – Student Center System
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Follett Earned Commissions	\$ 366,740	\$ 320,434
Follett Book & Supply Charge Reimbursement	1,437,810	1,372,947
Student Center Fee	462,245	489,264
Auxiliary Services	<u>89,039</u>	<u>139,377</u>
Total Revenues	<u>2,355,834</u>	<u>2,322,022</u>
 Expenses		
Follett Book & Supply Charges	1,398,066	1,521,475
Salaries and Benefits	189,298	238,331
General, Administrative and Other	449,684	636,596
Depreciation	<u>116,818</u>	<u>167,562</u>
Total Expenses	<u>2,153,866</u>	<u>2,563,964</u>
 Expenses under (in excess of) Revenues	 <u>\$ 201,968</u>	 <u>\$ (241,942)</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***

The Board of Regents
Rose State College
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 (the College) and the discretely presented component unit of Rose State College Foundation, Inc. , as of and for the year ended June 30, 2013, and the related notes to the financial statements for the year then ended, which collectively comprise the College’s basic financial statements, and have issued our report thereon dated December 20, 2013, which included an emphasis of a matter paragraph regarding the restatement of beginning net position due to an improper allocation of capital assets and a capitalized asset that was not properly recognized at the end of fiscal year 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College’s internal control. Accordingly, we do not express an opinion on the effectiveness of the College’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiencies described as 2013-1 in the accompanying schedule of findings and responses to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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*.

The College's Response to Findings

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma
December 20, 2013



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Regents
Rose State College
Midwest City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Rose State College's (the College) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Rose State College's major federal programs for the year ended June 30, 2013. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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



Oklahoma City, Oklahoma
December 20, 2013

Rose State College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Project Number	Federal Grant Expenditures
U.S. Department of Education			
Direct Programs			
Student Financial Aid Cluster:			
Pell Grant Program	84.063 *	N/A	\$ 11,496,786
Federal Work-Study Program	84.033 *	N/A	148,719
Direct Loan Program	84.268 *	N/A	11,585,853
Supplemental Education Opportunity Grants Program	84.007 *	N/A	217,076
Total Student Financial Aid Cluster			<u>23,448,434</u>
TRIO - Student Support Services	84.042A	N/A	<u>205,626</u>
Passed Through Oklahoma State Department of Technology			
Carl Perkins	84.048	(1)	<u>130,473</u>
Passed Through Oklahoma State Regents for Higher Education			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	84.334	(1)	<u>32,738</u>
Total U.S. Department of Education			<u>23,817,271</u>
U.S. Department of Health and Human Services			
Passed Through Oklahoma State Regents for Higher Education			
Scholars for Excellence in Child Care	93.575	(1)	128,755
Temporary Assistance for Needy Families (TANF)	93.558 *	(1)	<u>237,203</u>
			<u>365,958</u>
Passed Through Oklahoma Department of Human Services			
Temporary Assistance for Needy Families (TANF)	93.558 *	(1)	<u>194,301</u>
Passed Through Oklahoma East Central University, NIH Division			
Bridges to the Baccalaureate Degree	93.859	(1)	<u>6,580</u>
Total U.S. Department of Health and Human Services			<u>566,839</u>
U.S. Department of Labor			
Passed Through Oklahoma Department of Commerce			
ARRA - Oklahoma Department of Commerce Green	17.275	(1)	<u>161,972</u>
Passed Through Oklahoma City Community College			
TAACCCT Oklahoma Works	17.282	(1)	<u>60,900</u>
Total U.S. Department of Labor			<u>222,872</u>

Rose State College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Project Number	Federal Grant Expenditures
National Science Foundation			
Direct Programs			
Cyber Security Education Consortium OCIAFE	47.076	N/A	<u>117,390</u>
Passed Through Tulsa University			
TAACCCT Oklahoma Works	47.076	(1)	<u>11,076</u>
Total National Science Foundation			<u>128,466</u>
Institute of Museums and Libraries			
Direct Programs			
Cyber Security Education Consortium OCIAFE	45.313	N/A	<u>19,172</u>
Total Institute of Museums and Libraries			<u>19,172</u>
U.S. Small Business Administration			
Passed Through Southeastern Oklahoma State University			
Oklahoma Small Business Development Centers	59.037	(1)	<u>31,763</u>
Total U.S. Small Business Administration			<u>31,763</u>
U.S. Department of Homeland Security			
Passed Through Prince George's Community College			
Cyberwatch II CAE2Y	97.128	(1)	<u>29,337</u>
Total Institute of Museums and Libraries			<u>29,337</u>
U.S. Department of Transportation			
Direct Programs			
National Summer Transportation Institute	20.215	N/A	<u>35,106</u>
Total U.S. Department of Transportation			<u>35,106</u>
Total			<u>\$ 24,850,826</u>

(1) Pass-through grantor's project number is not available.

* Denotes major program cluster

Rose State College
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1: Summary of Significant Accounting Policies

This schedule includes the federal awards activity of Rose State College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Subrecipients

Rose State College provided no federal awards to subrecipients.

**Rose State College
Schedule of Findings and Responses
June 30, 2013**

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Name of Federal Program or Cluster

CFDA number

Student Financial Aid Cluster	84.063, 84.007, 84.033, 84.268
Temporary Assistance for Needy Families (TANF)	93.558
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000

Rose State College
Schedule of Findings and Responses
June 30, 2013

Section II – Findings Relating to the Financial Statements

2013-1 Capital Asset Restatements

Condition:	<p>The College’s financial reporting control system in place during the past fiscal year did not accurately reflect all of the College’s and the District’s capital assets. There were two matters to note:</p> <ul style="list-style-type: none">• As of June 30, 2012, the College and the District inappropriately expensed costs related to the construction of the building sign that should have been capitalized in the amount of \$210,769. This item was discovered by management during the subsequent year.• The District and College used an outdated allocation percentage to allocate costs between the District and the College for their building and improvements resulting in an adjustment of \$565,022 to the net position as of July 1, 2011.<ul style="list-style-type: none">○ This allocation method dates back several years before the College and the District’s current system was put into place in 2005.○ Prior to the current system, the old system did not identify properties belonging to the District or to the College so it appears this allocation method was put into place to best estimate the cost between the two entities.○ Since 2005, buildings and improvements were added to the new system as either the College or the District, yet the allocation method continued to be used on total buildings and improvements up until the current audit period. It had not been updated when management was aware of significant changes since the original allocation was established.
Criteria:	<p>The development and implementation of a year-end financial reporting control system, including making all adjustments and reassessing estimates, is the responsibility of the College and the District’s management.</p>
Cause:	<p>The College and the District have a process at year-end to record adjustments for financial statement presentation, but the process was not effective or was outdated in previous years in identifying all the necessary adjustments in accordance with accounting principles generally accepted in the United States (GAAP).</p>
Context:	<p>The College and the District’s financial statements were prepared by management, but there were material adjustments in the form of prior period adjustments.</p>
Effect:	<p>Material adjustments, including restatement of prior period amounts, were necessary to correctly present the financial statements.</p>

Recommendation: The year-end financial reporting process should include procedures to identify and record entries in accordance with GAAP.

Response: Management acknowledges its responsibility for establishing and maintaining effective internal controls that minimize the risk that undetected mistakes or errors would materially affect the financial statements. Management also acknowledges that no internal control system can completely negate the risk of undetected mistakes or errors but rather the risk can only be minimized to an acceptable level.

A material weakness in the internal controls of the capital asset system, as of June 30, 2013, has been noted in this report. Management has evaluated the effectiveness of the system of internal controls for capital assets and concurs that errors did occur.

Changes to the internal control system for capital assets have been implemented and management believes that these will strengthen the system of controls already in place and further mitigate the risk of undetected material mistakes or errors. Two specific matters have been noted in the finding of the material weakness and thus will be addressed separately in this response.

The first matter: As of June 30, 2012, the College and District inappropriately expensed costs related to the construction of the building sign that should have been capitalized. This error was found by management and presented to the audit firm along with the appropriate adjustments and restatements of the financials to correct the error, prior to the audit firm's field work. The deficiency of the internal control was that the error was not caught prior to the issuance of the financial statements for fiscal year 2012.

Following discussion with appropriate staff, management has instituted, a new review process of accounts payable activity, including activity occurring immediately after the end of the fiscal period which will help identify payments that should be capitalized. Management has also instituted the concept that when construction of one asset, that is one building project, is being funded concurrently by both the College and the District, the funding from the District be transferred to the College and thus allowing all money committed to that building project be paid from a single source. This process should reduce confusion caused by tracking one project on two sets of books.

The second matter: The District and College used an outdated allocation percentage to allocate costs between the District and the College for their building and improvements. This process was established by the audit firm engaged prior to the implementation to the current PeopleSoft system in 2004-2005. Under standards in place at that time, the audit firm both created the financial statements and performed the audit tests. This allocation process was acceptable at the time and has been acceptable by other audit firms to this point and thus the financial statements of the College and the District have been consistently generated over this long standing period.

Our current computer system is capable of tracking assets separately for each entity. Since implementation in 2004-2005, all new assets and related depreciation have been recorded in the purchasing entity's books. Thus, further need for the allocation of capital assets and depreciation has been negated. Management, with the agreement of the current audit firm, was able to identify and allocate to the appropriate entity all assets and associated depreciation brought forward from the legacy computer system to PeopleSoft. This process did require a restatement of financial statements for both the College and the District.

Going forward into future fiscal periods, all capital assets and depreciation will be reported on the appropriate entity's financial statements as calculated and recorded in the computer system. No further manipulation of the information will be required for constructing the financial statements. Because this is a onetime change in process, it is highly unlikely that another restatement will occur because of the allocation of capital asset costs and depreciation as required in the past.

Management believes that these changes and enhancements to the internal control and financial reporting process will serve to further mitigate the risk of undetected mistakes or errors in the financial reports of both the College and the District.

Section III – Findings and Questioned Costs for Major Federal Awards

None.

**Rose State College
Summary Schedule of Prior Audit Findings
June 30, 2013**

No findings in FY2012 audit.