



FINANCIAL STATEMENTS

APRIL 30, 2012 and 2011

WITH

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Oral Roberts University

We have audited the accompanying consolidated statements of financial position of Oral Roberts University (the University) as of April 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oral Roberts University at April 30, 2012 and 2011, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hogan Taylor LLP

September 18, 2012

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

April 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 36,610,718	\$ 27,923,364
Accounts receivable, net	3,120,679	2,904,943
Contributions receivable, net	327,106	6,003,196
Investments	11,214,322	6,899,082
Prepaid expenses and other assets	3,416,890	3,368,179
Student loans receivable, net	23,543,683	24,791,835
Commercial real estate, net	32,004,814	35,335,012
Educational plant, net	74,954,418	73,398,074
Beneficial interest in assets held by others	4,020,533	3,478,632
	\$ 189,213,163	\$ 184,102,317
Liabilities and Net Assets		
Notes payable	\$ 354,598	\$ 3,165,155
Accounts payable and accrued expenses	9,867,768	10,855,111
Deferred revenue	3,276,662	3,615,553
Obligations under split-interest agreements	2,153,584	2,221,248
Government advances for student loans	20,059,539	20,488,042
	35,712,151	40,345,109
Net assets:		
Unrestricted	77,903,213	76,555,966
Temporarily restricted	35,481,940	27,430,766
Permanently restricted	40,115,859	39,770,476
	153,501,012	143,757,208
Total net assets	153,501,012	143,757,208
Total liabilities and net assets	\$ 189,213,163	\$ 184,102,317

ORAL ROBERTS UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Tuition and fees	\$ 58,586,127	\$ -	\$ -	\$ 58,586,127
Room, board and other auxiliary services	20,847,173	-	-	20,847,173
Less: scholarships and fellowships	(24,850,920)	-	-	(24,850,920)
Net tuition, fees and auxiliary services	54,582,380	-	-	54,582,380
Contributions	610,000	29,803,302	202,339	30,615,641
Investment return	-	266,609	245,820	512,429
Contracts and grants	1,945,629	1,416,724	-	3,362,353
Commercial real estate operations	8,846,469	-	-	8,846,469
Other support	3,641,265	76,295	-	3,717,560
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,678,213	65,678	-
Net assets released from restrictions	25,358,423	(25,189,969)	(168,454)	-
Total revenues, gains and other support	93,240,275	8,051,174	345,383	101,636,832
Expenses and losses				
Education and general:				
Instruction	22,002,406	-	-	22,002,406
Research	319,940	-	-	319,940
Public service	1,127,127	-	-	1,127,127
Academic support	3,115,932	-	-	3,115,932
Student services	7,572,110	-	-	7,572,110
Institutional support	23,486,968	-	-	23,486,968
Room, board and other auxiliary services	20,931,521	-	-	20,931,521
Total education and general expenses	78,556,004	-	-	78,556,004
Commercial real estate operations	10,770,369	-	-	10,770,369
Interest on indebtedness	383,114	-	-	383,114
Other expenses	2,183,541	-	-	2,183,541
Total expenses and losses	91,893,028	-	-	91,893,028
Increase in net assets	1,347,247	8,051,174	345,383	9,743,804
Net assets, beginning of year	76,555,966	27,430,766	39,770,476	143,757,208
Net assets, end of year	\$ 77,903,213	\$ 35,481,940	\$ 40,115,859	\$ 153,501,012

ORAL ROBERTS UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Tuition and fees	\$ 56,525,486	\$ -	\$ -	\$ 56,525,486
Room, board and other auxiliary services	20,150,861	-	-	20,150,861
Less: scholarships and fellowships	(22,002,887)	-	-	(22,002,887)
Net tuition, fees and auxiliary services	54,673,460	-	-	54,673,460
Contributions	581,104	27,259,873	231,148	28,072,125
Investment return	-	462,378	22,140	484,518
Contracts and grants	683,622	1,113,041	-	1,796,663
Commercial real estate operations	9,313,541	-	-	9,313,541
Other support	3,261,595	141,137	-	3,402,732
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,685,084	58,807	-
Net assets released from restrictions	18,350,414	(18,350,414)	-	-
Total revenues, gains and other support	85,119,845	12,311,099	312,095	97,743,039
Expenses and losses				
Education and general:				
Instruction	21,918,804	-	-	21,918,804
Research	251,594	-	-	251,594
Public service	2,209,132	-	-	2,209,132
Academic support	2,906,867	-	-	2,906,867
Student services	7,531,698	-	-	7,531,698
Institutional support	21,415,414	-	-	21,415,414
Room, board and other auxiliary services	21,160,738	-	-	21,160,738
Total education and general expenses	77,394,247	-	-	77,394,247
Commercial real estate operations	11,160,508	-	-	11,160,508
Interest on indebtedness	443,961	-	-	443,961
Other expenses	2,200,656	-	-	2,200,656
Total expenses and losses	91,199,372	-	-	91,199,372
Increase (decrease) in net assets	(6,079,527)	12,311,099	312,095	6,543,667
Net assets, beginning of year	82,635,493	15,119,667	39,458,381	137,213,541
Net assets, end of year	\$ 76,555,966	\$ 27,430,766	\$ 39,770,476	\$ 143,757,208

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Increase in net assets	\$ 9,743,804	\$ 6,543,667
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,101,527	11,995,694
Realized and unrealized gain on investments	(149,495)	(292,797)
Loss on disposal of land and educational plant	14,315	637,458
Student loans cancelled	397,173	490,313
Provision for bad debts	631,012	350,451
Donated assets	(64,943)	(50,601)
Contributions restricted for long-term purposes	(25,967,956)	(12,000,000)
(Increase) decrease in:		
Accounts receivable	(573,783)	(653,235)
Contributions receivable	5,324,577	(5,955,743)
Prepaid expenses and other assets	(48,711)	(78,755)
Beneficial interest in assets held by others	(541,901)	(626,099)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(987,343)	498,951
Deferred revenue	(338,891)	(658,244)
Refundable federal student loans	(428,503)	306,750
Net cash provided by (used in) operating activities	(889,118)	507,810
Cash Flows from Investing Activities		
Purchases of educational plant	(9,619,248)	(9,753,377)
Proceeds from sale of educational plant	-	1,576,966
Purchases of commercial real estate assets	(657,798)	(1,624,884)
Purchases of investments	(9,878,855)	(4,417,366)
Proceeds from sale of investments	5,713,110	3,612,845
Student loan collections	2,924,111	2,532,851
Student loans granted	(1,994,584)	(2,358,830)
Net cash used in investing activities	(13,513,264)	(10,431,795)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term purposes	25,967,956	12,000,000
Payments on notes payable	(10,318,318)	(12,010,549)
Proceeds from notes payable	7,507,762	13,980,596
Other	(67,664)	(62,523)
Net cash provided by financing activities	23,089,736	13,907,524
Net increase in cash and cash equivalents	8,687,354	3,983,539
Cash and cash equivalents, beginning of year	27,923,364	23,939,825
Cash and cash equivalents, end of year	\$ 36,610,718	\$ 27,923,364

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2012 and 2011

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

Organization

Oral Roberts University (ORU) was founded to educate the whole person – mind, body and spirit. ORU promises a world-class academic experience in the context of a vibrant Christ-centered community.

ORU is a comprehensive university dedicated to strong student outcomes and offers 62 undergraduate majors, many with national accreditation, as well as 12 master's-level programs and two doctoral degrees. The most popular majors include: business administration, media, ministry and leadership, nursing, and psychology. Faculty members educated at the nation's top graduate schools serve as academic, professional and spiritual mentors to students who come to ORU from every corner of the globe.

The student population consists of 3,259 for-credit students from 49 states and 55 countries. The alumni population consists of approximately 22,500 individuals. The ORU Golden Eagles Athletics Department is also proud to be a participant in 16 NCAA Division I men's and women's varsity sports.

The accompanying consolidated financial statements include the accounts of certain entities under the financial control of Oral Roberts University. Significant balances and transactions among these entities are eliminated in consolidation. Oral Roberts University and the entities included herein are collectively referred to as ORU or the University.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements reflect the activities of the University as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions and available for purposes consistent with the University's mission. Revenues are generally reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Investment returns generated by unrestricted funds are classified as changes in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that must be met by actions of the University and/or the passage of time. Contributed assets normally fund specific expenditures of an operating or capital nature. Investment returns on endowment funds are generally classified as changes in temporarily restricted net assets. Temporarily restricted contributions or investment returns received and expended within the same fiscal year are reported as increases in temporarily restricted net assets and net assets released from restrictions, respectively, in the consolidated statements of activities.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions requiring that they be maintained permanently by the University.

Tuition and fees revenue and student financial aid

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Scholarships and fellowships awarded on the basis of merit or need are reported as a reduction of tuition and fee revenue. Tuition discounts granted to employees and their dependents are recorded as compensation expense in the appropriate functional expense classification.

The U.S. Government awards the University funds for student financial aid under three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Work Study (FWS). Pell and SEOG provide eligible students a foundation of financial aid to assist with defraying the costs of post-secondary education. The FWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students.

Auxiliary enterprises

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, intercollegiate athletics, and college stores. Auxiliary enterprise revenues and related expenses are reported as changes in unrestricted net assets.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Unconditional promises to give are recorded net of an allowance for uncollectible receivables. This estimate is based on such factors as prior collection history, type of contribution, and the nature of the fund-raising activity. Amounts due in more than one year are discounted using a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue to the respective net asset class.

Bequests are recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. Conditional promises to give are not recorded until the conditions on which they depend are substantially met.

Cash and cash equivalents

Resources on deposit with financial institutions and short-term investments with an original maturity date of three months or less are classified as cash equivalents.

Cash paid for interest was \$438,297 and \$516,199 for the years ended April 30, 2012 and 2011, respectively.

Investments and investment income

Investments in government and agency obligations, debt and marketable equity securities are stated at fair value. Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, change in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements.

Investment return consists of interest and dividend income and realized and unrealized gains and losses on investments, net of fees. Investment return on endowment investments, after all donor-required additions to the endowment corpus, are reported as temporarily restricted until appropriated for use by the

University. Any difference between the total return recognized and the amount appropriated under the University's spending rate policy is reported as temporarily restricted net assets.

Split-interest agreements

The University has received various charitable gift annuities and irrevocable charitable remainder trusts under which donors have retained rights to periodic distributions. Assets received under these agreements are recorded at fair value in the appropriate net asset category and are included with investments. These investments consist primarily of pooled income funds. Temporarily restricted contribution revenues are recognized at the date the agreements are established for the fair value of assets received less the estimated liabilities for the present value of future payments to be made to the donors or their designee. The liabilities are adjusted during the terms of the agreements for changes in the value of the assets, accretion of the discounts and other changes in estimates of future benefits.

ORU also enters into revocable life loan agreements whereby lenders place funds with the University. Interest is paid to lenders at rates of 3.5% to 6.5%. Lenders may make additional loans or withdrawals over the life of the agreement. If called, the loans must be repaid, but ORU's obligation to repay a loan terminates upon the death of the lender.

The fair value of assets held under split-interest agreements was approximately \$6,469,000 and \$6,866,000 at April 30, 2012 and 2011, respectively.

Educational plant

Purchased property, plant and equipment are recorded at cost, including, where appropriate, capitalized interest. Donated assets are recorded at fair value at the date of the donation. Repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. Property, plant and equipment are removed from the accounting records at the time of disposal.

Commercial real estate

Commercial real estate is comprised of a three-tower, 2.2 million square foot office complex known as CityPlex Towers (CityPlex). Rental revenue is recorded on a straight-line basis over the terms of the leases. The investment in building, tenant improvements and related assets are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives and is reported in expenses of commercial real estate operations.

Student loans receivable

Student loans receivable consist primarily of loans made to students under U.S. Government loan programs. The loans are stated at estimated net realizable value.

Beneficial interests in assets held by others

The ORU Alumni Foundation, Inc. and ORU Golden Eagle Club, Inc. receive contributions and hold assets for which the University is designated the beneficiary by the donor. The net assets of these affiliated entities, determined on a fair value basis, are reported as temporarily restricted net assets.

Concentrations

ORU has cash deposits with several financial institutions that generally exceed federally insured limits by significant amounts. ORU has not experienced any losses in such accounts.

During the years ended April 30, 2012 and 2011, ORU received contributions of approximately \$27,800,000 and \$16,000,000, respectively, from a single donor or entities affiliated with the donor.

Student financial aid

The University conducts certain programs pursuant to grants and contracts funded, and subject to audit, by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these government agencies.

The University participates in the Federal Family Education Loan Program (the Program), which includes the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students. Program loans are made by various lenders to students attending the University. Such transactions are not recorded in the financial statements of the University. The University performs certain administrative functions under the Program, which if not performed timely, could result in a liability to the University.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Federal income taxes

ORU is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business taxable income as defined by the Internal Revenue Code. Such taxable income has not been significant.

Continued compliance with applicable tax regulations affords ORU the opportunity to maintain its tax-exempt status. However, events or interpretations of such regulations could result in contingent tax obligations. Management evaluated ORU's tax positions and concluded that ORU had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements. Generally, ORU is no longer subject to examinations by the federal, state or local tax authorities for tax years before the fiscal year ending April 30, 2009.

Fair value measurements

The Financial Accounting Standards Board (FASB) defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

The University utilizes the following fair value hierarchy, which prioritizes, into three broad levels, the inputs to valuation techniques used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets and liabilities,
- Level 2 – Significant other observable inputs,
- Level 3 – Significant unobservable inputs.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

Fundraising expense

Fundraising expense incurred was approximately \$1,592,000 and \$1,195,000 in 2012 and 2011, respectively.

Subsequent events

Management has evaluated subsequent events through September 18, 2012, the date the financial statements were available to be issued.

Note 2 – Receivables

Accounts receivable at April 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Student tuition and fees, net of \$2,034,815 and \$1,693,532 allowance for doubtful accounts, respectively	\$ 516,212	\$ 616,235
Contracts and grants receivable	41,197	246,271
Rental property receivables, net of \$78,472 and \$145,458 allowance for doubtful accounts, respectively	1,082,264	844,774
Other receivables	1,481,006	1,197,663
	<u>\$ 3,120,679</u>	<u>\$ 2,904,943</u>

Contributions receivable at April 30 are due as follows:

	<u>2012</u>	<u>2011</u>
One year or less	\$ 671,498	\$ 6,193,180
One to five years	168,045	100,876
More than five years	130,102	-
	969,645	6,294,056
Allowance for uncollectible accounts	<u>(642,539)</u>	<u>(290,860)</u>
	<u>\$ 327,106</u>	<u>\$ 6,003,196</u>

Note 3 – Investments

Investments at April 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Equity mutual funds	\$ 4,085,812	\$ 2,316,273
Bond mutual funds	3,197,871	1,484,322
Government backed securities	1,776,282	1,926,485
Corporate bonds	862,242	1,045,612
Corporate equity	1,292,115	126,390
	<u>\$ 11,214,322</u>	<u>\$ 6,899,082</u>

Total investment return consists of and is included in the statements of activities as follows:

	2012	2011
Interest and dividends	\$ 362,934	\$ 213,633
Realized and unrealized gain on investments	149,495	270,885
	<u>\$ 512,429</u>	<u>\$ 484,518</u>

Note 4 – Fair Value Disclosures

The following tables present the University's investments that are measured at fair value on a recurring basis for each hierarchy level as of April 30:

	2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 4,085,812	\$ 4,085,812	\$ -	\$ -
Bond mutual funds	3,197,871	3,197,871	-	-
Government-back securities	1,776,282	1,677,364	98,918	-
Corporate bonds	862,242	-	862,242	-
Corporate equity	1,292,115	1,292,115	-	-
	<u>\$ 11,214,322</u>	<u>\$ 10,253,162</u>	<u>\$ 961,160</u>	<u>\$ -</u>

	2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 2,316,273	\$ 2,316,273	\$ -	\$ -
Bond mutual funds	1,484,322	1,484,322	-	-
Government-back securities	1,926,485	1,766,452	160,033	-
Corporate bonds	1,045,612	-	1,045,612	-
Corporate equity	126,390	126,390	-	-
	<u>\$ 6,899,082</u>	<u>\$ 5,693,437</u>	<u>\$ 1,205,645</u>	<u>\$ -</u>

Investments classified as Level 2 in the fair value hierarchy include corporate bonds and certain government backed securities. These assets do not trade at a sufficient frequency to provide market close pricing and therefore require utilization of like asset activity inputs entered into a pricing matrix.

The following methods and assumptions were used to estimate the fair value of each class of *financial instruments* for which it is practicable to estimate that value:

Cash equivalents, accounts and contributions receivable, notes and accounts payable – The carrying amounts approximate fair value because of the short maturity of those instruments.

Student loans receivable and obligations under split-interest agreements – Determination of the fair values cannot be made without incurring excessive costs.

Beneficial interests in assets held by others consist primarily of cash and certificates of deposit and are therefore classified as Level 1 in the fair value hierarchy.

Note 5 – Educational Plant

Net investment in educational plant at April 30 consists of the following:

	2012	2011	Estimated Useful Lives
Land and improvements	\$ 11,559,932	\$ 11,160,663	20 years
Buildings and improvements	104,716,482	102,966,018	20-50 years
Equipment	36,161,223	33,668,535	3-10 years
Vehicles	1,543,285	1,546,488	5 years
Library books	8,307,630	8,186,261	20 years
	<u>162,288,552</u>	<u>157,527,965</u>	
Less accumulated depreciation	(92,623,351)	(84,833,356)	
	<u>69,665,201</u>	<u>72,694,609</u>	
Construction in progress	5,289,217	703,465	
	<u>\$ 74,954,418</u>	<u>\$ 73,398,074</u>	

In 2011, the University designated for demolition an unoccupied building with a carrying value of approximately \$700,000. Accordingly in 2011, the University recorded an impairment loss of \$978,000 in the accompanying statement of activities. In 2012, an additional \$72,000 of demolition costs were recorded. Included in the impairment loss is an accrual on April 30, 2012 and 2011, of estimated environmental remediation and demolition costs to be incurred of \$337,000 and \$265,000, respectively.

Depreciation expense related to educational plant was \$8,113,532 and \$8,470,261 for the years ended April 30, 2012 and 2011, respectively.

Note 6 – Commercial Real Estate

The carrying value of CityPlex at April 30 consists of the following:

	2012	2011
Land	\$ 2,815,144	\$ 2,815,144
Buildings and improvements	93,536,619	93,336,944
Equipment	28,158,147	28,143,739
Tenant improvements	2,649,739	2,546,814
	<u>127,159,649</u>	<u>126,842,641</u>
Less accumulated depreciation	(96,623,935)	(92,635,940)
	<u>30,535,714</u>	<u>34,206,701</u>
Construction in progress	1,469,100	1,128,311
	<u>\$ 32,004,814</u>	<u>\$ 35,335,012</u>

Operations of CityPlex for the years ended April 30 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Tenant rental income	\$ 8,846,469	\$ 9,313,541
Operating expenses:		
Property management	394,707	407,786
Leasing commissions	274,027	306,058
Utilities	2,111,830	2,676,430
Operations and maintenance	3,946,627	4,172,561
Interest on indebtedness	55,183	72,240
	<u>6,782,374</u>	<u>7,635,075</u>
Operating income before depreciation	2,064,095	1,678,466
Depreciation	3,987,995	3,525,433
Net operating loss	<u>\$ (1,923,900)</u>	<u>\$ (1,846,967)</u>

The building is depreciated over 40 years. Tenant improvements are amortized over the term of the related lease. Leasing commissions paid to third parties are capitalized and amortized over the term of the related lease.

Minimum future rentals under noncancellable lease agreements as of April 30, 2012, are as follows:

2013	\$ 7,655,919
2014	6,439,542
2015	6,023,680
2016	5,093,840
2017	2,590,655
Thereafter	<u>3,453,572</u>
	<u>\$ 31,257,208</u>

Note 7 – Notes Payable

Notes payable at April 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Line-of-credit with interest at LIBOR plus 2.45% (2.69% at April 30, 2012); interest only due monthly; collateralized by certain real estate, securities and guarantees; due October 29, 2014.	\$ -	\$ 2,632,297
Other	354,598	532,858
	<u>\$ 354,598</u>	<u>\$ 3,165,155</u>

Annual maturities of notes payable are as follows:

2013	\$ 188,655
2014	<u>165,943</u>
	<u><u>\$ 354,598</u></u>

On October 29, 2011, the University entered into an amended agreement to extend the line-of-credit through October 29, 2014. The amended agreement includes an interest rate equal to LIBOR plus 2.45% and increases the maximum borrowings from \$9,500,000 to \$13,000,000. The University also established a \$5,500,000 advancing term loan which includes a floating interest rate equal to LIBOR plus 2.25% through October 29, 2012. Effective October 29, 2012, the University may elect a fixed rate or floating rate as defined in the loan agreement. The agreement requires monthly interest payments through October 29, 2012, after which principal and interest are payable in 60 monthly installments. There were no borrowings under the advancing term loan at April 30, 2012.

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at April 30:

	<u>2012</u>	<u>2011</u>
Split-interest agreements	\$ 4,306,792	\$ 4,732,717
Scholarships	4,153,493	4,350,950
Capital investment	17,940,016	10,684,249
Beneficial interests in assets held by others	4,020,533	3,478,632
Other purpose restrictions	<u>5,061,106</u>	<u>4,184,218</u>
Total temporarily restricted net assets	<u><u>\$ 35,481,940</u></u>	<u><u>\$ 27,430,766</u></u>

Net assets temporarily restricted for capital investment consist primarily of contributions designated for construction of the Armand Hammer Alumni-Student Center and CityPlex refurbishment.

Note 9 – Endowment

Permanently restricted net assets are composed of the University's permanent endowments with earnings restricted for the following purposes at April 30:

	<u>2012</u>	<u>2011</u>
School of Business	\$ 281,701	\$ 267,061
School of Theology	2,322,072	2,316,075
School of Education	594,631	568,046
School of Arts and Sciences	1,250,076	1,234,271
School of Nursing	21,640,250	21,493,749
General scholarships	9,946,655	9,924,996
General activities of the University	<u>4,080,474</u>	<u>3,966,278</u>
Total permanently restricted net assets	<u><u>\$ 40,115,859</u></u>	<u><u>\$ 39,770,476</u></u>

The University's endowment trust consists of approximately 240 individual funds established for a variety of purposes. The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the state of Oklahoma, as requiring the preservation of the fair value of the original gifts as of the gift dates of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

The endowment trust was established in 1973. After a period of inactivity, it was reactivated in 1988 by creation of the Anna Vaughn Benz Trust Fund for the School of Nursing. During the 1990s, the University experienced periods of financial need which were met, in part, by borrowings from the endowment trust.

In recognition of the University's obligations for borrowing from the endowment trust, effective May 1, 2008, and amended on April 28, 2010, the endowment trust and the University entered into an agreement (the Joint Venture Agreement) whereby, among other things, they made the following agreements:

- CityPlex ownership and operations will remain vested in and the responsibility of the University
- The endowment fund's interest in certain promissory notes receivable from the University were contributed to the joint venture
- All annual operating income of CityPlex (as defined) is split between the University and the Endowment Trust. According to the agreement, the University guarantees the endowment fund will receive the greater of \$1,743,891 or 53.66% of the annual operating income of CityPlex
- In the event of a sale of CityPlex, proceeds will be allocated as follows:
 - ♦ First \$34,877,825 of net proceeds to the endowment fund
 - ♦ Proceeds in excess of \$34,877,825 to \$65 million, first to temporarily restricted fund accounts from which the University had borrowed funds, if any, then to the University's unrestricted fund
 - ♦ Proceeds in excess of \$65 million, if any, 53.66% to endowment fund and the remainder to the University's unrestricted fund

For the years ended April 30, 2012 and 2011, CityPlex's income before depreciation and amortization was \$2,064,095 and \$1,678,466, respectively. The guaranteed 5% return of \$1,743,891 for 2012 and 2011 is reported in the statement of activities as a transfer from unrestricted net assets to temporarily restricted net assets. Net assets released from restrictions in 2011 include appropriation by the board of trustees of all endowment earnings which were used for the restricted purposes as scheduled above.

Endowment trust assets consist of cash and cash equivalents and marketable securities of approximately \$5,402,000 and \$5,405,000, at April 30, 2012 and 2011, respectively, with the remainder in the Joint Venture Agreement discussed above.

Note 10 – Retirement Plans

Full-time faculty and staff are eligible after specified periods of employment to participate in a contributory retirement and annuity program through the Teachers Insurance and Annuity Association and the College Retirement Equities Funds (TIAA/CREF). The University has no liability for the funds other than current contributions, which equal the employees' contribution as detailed in the Plan.

Note 11 – Commitments and Contingencies

ORU is involved in various litigation arising in the ordinary course of business. After reviewing these actions with counsel, management does not believe that any resulting liability will be material to the financial statements taken as a whole.

Note 12 – Transactions with Related Parties

The University has adopted a Conflict of Interest Policy by which a proposed transaction with a related party is to be reviewed by the Audit Committee of the Board of Trustees to confirm that a more advantageous transaction is not reasonably possible; the transaction is in the University's best interest; for the University's benefit; and fair and reasonable. The University entered into a limited number of transactions with related parties which are individually and in the aggregate immaterial to the financial statements.