



**CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2016 and 2015**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Oral Roberts University

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Oral Roberts University and affiliates (collectively, the University) which comprise the consolidated statements of financial position as of April 30, 2016 and 2015, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of April 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Hagan Taylor LLP*

August 24, 2016

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**April 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 28,878,765	\$ 32,284,201
Accounts receivable, net	4,528,427	3,703,947
Contributions receivable, net	3,268,184	4,851,589
Investments	10,698,920	11,825,489
Certificates of deposit	9,595,584	6,009,018
Prepaid expenses and other assets	3,075,188	3,201,580
Student loans receivable, net	23,503,616	22,564,270
Commercial real estate, net	31,668,285	33,093,752
Educational plant, net	76,885,839	79,019,380
Beneficial interest in assets held by others	3,287,037	3,411,763
	<b>\$ 195,389,845</b>	<b>\$ 199,964,989</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 13,193,718	\$ 12,062,374
Deferred revenue	4,439,063	3,823,943
Obligations under split-interest agreements	1,579,807	1,721,864
Government advances for student loans	20,205,750	20,151,293
	39,418,338	37,759,474
Net assets:		
Unrestricted	83,080,579	86,220,136
Temporarily restricted	30,994,004	34,631,824
Permanently restricted	41,896,924	41,353,555
	155,971,507	162,205,515
Total net assets	<b>155,971,507</b>	<b>162,205,515</b>
Total liabilities and net assets	<b>\$ 195,389,845</b>	<b>\$ 199,964,989</b>

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2016  
(with comparative totals for the year ended April 30, 2015)**

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues, gains and other support</b>					
Tuition and fees	\$ 69,917,259	\$ -	\$ -	\$ 69,917,259	\$ 65,375,146
Room, board and other auxiliary services	21,549,078	-	-	21,549,078	22,007,654
Less: scholarships and fellowships	(31,987,611)	-	-	(31,987,611)	(30,736,233)
Net tuition, fees and auxiliary services	59,478,726	-	-	59,478,726	56,646,567
Contributions	5,536,572	15,889,174	418,866	21,844,612	27,512,686
Investment return	152,080	(352,495)	54,367	(146,048)	796,726
Contracts and grants	1,037,921	223,527	-	1,261,448	1,445,506
Commercial real estate operations	8,579,678	-	-	8,579,678	8,510,258
Other support	6,758,682	159,562	-	6,918,244	5,466,747
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,673,755	70,136	-	-
Net assets released from restrictions	21,231,343	(21,231,343)	-	-	-
Total revenues, gains and other support	101,031,111	(3,637,820)	543,369	97,936,660	100,378,490
<b>Expenses and losses</b>					
Education and general:					
Instruction	27,056,337	-	-	27,056,337	27,208,867
Research	55,748	-	-	55,748	216,086
Public service	5,228,739	-	-	5,228,739	4,252,946
Academic support	3,959,251	-	-	3,959,251	3,309,363
Student services	10,263,631	-	-	10,263,631	7,997,846
Institutional support	23,756,244	-	-	23,756,244	24,687,961
Room, board and other auxiliary services	20,476,286	-	-	20,476,286	19,757,918
Total education and general expenses	90,796,236	-	-	90,796,236	87,430,987
Commercial real estate operations	10,689,731	-	-	10,689,731	10,002,002
Other expenses	2,684,701	-	-	2,684,701	2,346,587
Total expenses and losses	104,170,668	-	-	104,170,668	99,779,576
Change in net assets	(3,139,557)	(3,637,820)	543,369	(6,234,008)	598,914
Net assets, beginning of year	86,220,136	34,631,824	41,353,555	162,205,515	161,606,601
Net assets, end of year	\$ 83,080,579	\$ 30,994,004	\$ 41,896,924	\$ 155,971,507	\$ 162,205,515

See notes to consolidated financial statements.

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support</b>				
Tuition and fees	\$ 65,375,146	\$ -	\$ -	\$ 65,375,146
Room, board and other auxiliary services	22,007,654	-	-	22,007,654
Less: scholarships and fellowships	(30,736,233)	-	-	(30,736,233)
Net tuition, fees and auxiliary services	56,646,567	-	-	56,646,567
Contributions	4,824,440	22,626,004	62,242	27,512,686
Investment return	106,801	594,621	95,304	796,726
Contracts and grants	1,172,120	273,386	-	1,445,506
Commercial real estate operations	8,510,258	-	-	8,510,258
Other support	5,267,624	199,123	-	5,466,747
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,674,586	69,305	-
Net assets released from restrictions	22,473,362	(22,473,362)	-	-
Total revenues, gains and other support	97,257,281	2,894,358	226,851	100,378,490
<b>Expenses and losses</b>				
Education and general:				
Instruction	27,208,867	-	-	27,208,867
Research	216,086	-	-	216,086
Public service	4,252,946	-	-	4,252,946
Academic support	3,309,363	-	-	3,309,363
Student services	7,997,846	-	-	7,997,846
Institutional support	24,687,961	-	-	24,687,961
Room, board and other auxiliary services	19,757,918	-	-	19,757,918
Total education and general expenses	87,430,987	-	-	87,430,987
Commercial real estate operations	10,002,002	-	-	10,002,002
Other expenses	2,346,587	-	-	2,346,587
Total expenses and losses	99,779,576	-	-	99,779,576
Change in net assets	(2,522,295)	2,894,358	226,851	598,914
Net assets, beginning of year	88,742,431	31,737,466	41,126,704	161,606,601
Net assets, end of year	\$ 86,220,136	\$ 34,631,824	\$ 41,353,555	\$ 162,205,515

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended April 30, 2016 and 2015**

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (6,234,008)	\$ 598,914
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,820,403	11,163,384
Realized and unrealized loss (gain) on investments	572,200	(376,012)
Gain on disposal of educational plant	(5,821)	(380,197)
Student loans cancelled	329,496	356,710
Provision for bad debts	1,263,136	1,943,659
Donated assets	(251,827)	(144,682)
Contributions restricted for long-term purposes	(6,336,294)	(6,311,029)
Change in:		
Accounts receivable	(1,282,339)	(832,036)
Contributions receivable	611,895	(3,563,638)
Prepaid expenses and other assets	135,268	110,277
Beneficial interest in assets held by others	124,726	271,672
Accounts payable and accrued expenses	1,131,344	273,638
Deferred revenue	630,710	1,371,512
Government advances for student loans	54,457	111,272
Net cash provided by operating activities	1,563,346	4,593,444
<b>Cash Flows from Investing Activities</b>		
Purchases of educational plant	(4,893,370)	(3,419,904)
Purchases of commercial real estate assets	(2,371,080)	(4,705,001)
Purchases of investments	(2,195,880)	(6,152,306)
Purchases of certificates of deposit	(4,016,000)	(6,009,018)
Proceeds from sale of investments	3,431,510	5,736,854
Student loan collections	2,708,816	3,477,430
Student loans granted	(3,811,425)	(3,035,822)
Net cash used in investing activities	(11,147,429)	(14,107,767)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for long-term purposes	6,336,294	6,311,029
Other	(157,647)	(109,118)
Net cash provided by financing activities	6,178,647	6,201,911
Net change in cash and cash equivalents	(3,405,436)	(3,312,412)
Cash and cash equivalents, beginning of year	32,284,201	35,596,613
Cash and cash equivalents, end of year	\$ 28,878,765	\$ 32,284,201

See notes to consolidated financial statements.



# ORAL ROBERTS UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2016 and 2015

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

#### Organization

Oral Roberts University (ORU or the University) 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 76 undergraduate majors, as well as 12 masters-level programs and two doctoral degrees. The most popular majors include: Ministry and Leadership, Business Administration, Nursing, Biology, and Engineering. 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 approximately 3,700 for-credit students from all 50 states and 86 countries. The alumni population consists of approximately 42,000 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 ORU. 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.

### 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 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.

### 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 fundraising 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.

### 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.

### 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.

### 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.

### 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.

### 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.

### Split-interest agreements

The University has received various irrevocable 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 gift annuity 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.

The University also enters into revocable life loan agreements whereby lenders place funds with the University. Interest is paid to lenders at rates of 3% to 6%. Lenders may make withdrawals or convert the principal to an irrevocable contract or an outright gift of the principal to ORU over the life of the agreement. If called, the loans must be repaid, but the University'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 \$5,242,000 and \$5,942,000 at April 30, 2016 and 2015, respectively, and are included in investments in the accompanying statement of financial position.

Cash paid for interest, primarily related to split-interest agreements, was approximately \$268,000 and \$274,000 for the years ended April 30, 2016 and 2015, respectively.

### Tuition and fees revenue and scholarships and fellowships

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.

### Student financial aid

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.

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 William D. Ford Federal Direct Loan Program, which includes the Direct Stafford Loan Program and the Direct PLUS Loans for parents and graduate/professional students, collectively referred to as the Direct Loan Programs. Direct Loan Programs processed through the U.S. Department of Education are made 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 Direct Loan Programs, which if not performed timely, could result in a liability to the University.

#### Auxiliary services

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 service revenues and related expenses are reported as changes in unrestricted net assets.

#### Fundraising expense

Fundraising expense incurred was approximately \$2,442,000 and \$2,501,000 in 2016 and 2015, respectively.

#### Federal income taxes

ORU is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), except to the extent of unrelated business taxable income as defined by the Code. Such taxable income has not been significant. Continued compliance with applicable tax regulations affords ORU the opportunity to maintain its tax-exempt status.

#### Concentrations

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

During the years ended April 30, 2016 and 2015, ORU received contributions of approximately \$13,000,000 and \$16,970,000, respectively, from a single donor or entities affiliated with the donor.

#### Fair value measurements

The Financial Accounting Standards Board 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).

#### Subsequent events

Management has evaluated subsequent events through August 24, 2016, the date the financial statements were available to be issued.

#### **Note 2 – Receivables**

Accounts receivable at April 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Student tuition and fees, net of \$2,066,399 and \$1,752,846 allowance for doubtful accounts, respectively	\$ 1,079,994	\$ 555,212
Contracts and grants receivable	24,847	57,567
Rental property receivables, net of \$650,117 and \$199,703 allowance for doubtful accounts, respectively	1,254,204	1,387,577
Other receivables	2,169,382	1,703,591
	<u>\$ 4,528,427</u>	<u>\$ 3,703,947</u>

Contributions receivable at April 30 are due as follows:

	<u>2016</u>	<u>2015</u>
One year or less	\$ 4,239,674	\$ 4,586,019
One to five years	1,740,817	2,384,613
More than five years	374,587	-
	<u>6,355,078</u>	<u>6,970,632</u>
Allowance for uncollectible accounts	(3,086,894)	(2,119,043)
	<u>\$ 3,268,184</u>	<u>\$ 4,851,589</u>

#### **Note 3 – Investments**

Investments at April 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Equity mutual funds	\$ 6,057,548	\$ 8,891,694
Bond mutual funds	3,366,608	1,513,304
Government-backed securities	202,750	622,426
Corporate bonds	202,979	291,360
Corporate equities	413,295	414,888
Real estate trusts and other	455,740	91,817
	<u>\$ 10,698,920</u>	<u>\$ 11,825,489</u>

Total investment return is included in the consolidated statements of activities and consists of the following at April 30:

	2016	2015
Interest and dividends	\$ 426,152	\$ 420,714
Realized and unrealized gain (loss) on investments	(572,200)	376,012
	<u>\$ (146,048)</u>	<u>\$ 796,726</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:

	2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 6,057,548	\$ 6,057,548	\$ -	\$ -
Bond mutual funds	3,366,608	3,366,608	-	-
Government-backed securities	202,750	136,021	66,729	-
Corporate bonds	202,979	-	202,979	-
Corporate equities	413,295	413,295	-	-
Real estate trusts and other	455,740	315,739	140,001	-
	<u>\$ 10,698,920</u>	<u>\$ 10,289,211</u>	<u>\$ 409,709</u>	<u>\$ -</u>
	2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 8,891,694	\$ 8,891,694	\$ -	\$ -
Bond mutual funds	1,513,304	1,513,304	-	-
Government-backed securities	622,426	594,662	27,764	-
Corporate bonds	291,360	-	291,360	-
Corporate equities	414,888	414,888	-	-
Real estate trusts and other	91,817	91,817	-	-
	<u>\$ 11,825,489</u>	<u>\$ 11,506,365</u>	<u>\$ 319,124</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, 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 – Commercial Real Estate

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

	2016	2015	Estimated Useful Lives
Land	\$ 2,815,144	\$ 2,815,144	-
Buildings and improvements	107,408,984	105,645,482	20-50 years
Equipment	29,014,362	28,676,808	3-10 years
Tenant improvements	3,939,165	3,832,879	various
	<u>143,177,655</u>	<u>140,970,313</u>	
Less accumulated depreciation	<u>(111,778,525)</u>	<u>(107,981,868)</u>	
	31,399,130	32,988,445	
Construction in progress	269,155	105,307	
	<u>\$ 31,668,285</u>	<u>\$ 33,093,752</u>	

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

	2016	2015
Tenant rental income	\$ 8,579,678	\$ 8,510,258
Operating expenses:		
Property management	360,000	360,000
Leasing commissions	248,076	250,652
Utilities	1,539,712	1,505,767
Operations and maintenance	4,745,396	3,988,612
	<u>6,893,184</u>	<u>6,105,031</u>
Operating income before depreciation	1,686,494	2,405,227
Depreciation	3,796,547	3,896,971
Net operating loss	<u>\$ (2,110,053)</u>	<u>\$ (1,491,744)</u>

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, 2016, are as follows:

2017	\$ 8,017,172
2018	6,889,477
2019	5,982,091
2020	5,326,318
2021	4,932,420
Thereafter	<u>3,487,565</u>
	<u>\$ 34,635,043</u>

## Note 6 – Educational Plant

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

	2016	2015	Estimated Useful Lives
Land and improvements	\$ 12,341,513	\$ 12,318,427	20 years
Buildings and improvements	128,909,791	127,891,869	20-50 years
Equipment	45,226,556	43,040,729	3-10 years
Vehicles	1,839,687	1,757,858	5 years
Library books	8,710,548	8,652,122	20 years
	<u>197,028,095</u>	<u>193,661,005</u>	
Less accumulated depreciation	<u>(122,620,422)</u>	<u>(115,853,450)</u>	
	74,407,673	77,807,555	
Construction in progress	<u>2,478,166</u>	<u>1,211,825</u>	
	<u>\$ 76,885,839</u>	<u>\$ 79,019,380</u>	

Depreciation expense related to educational plant was approximately \$7,024,000 and \$7,266,000 for the years ended April 30, 2016 and 2015, respectively.

The University has various operating leases for vehicles and office equipment. The minimum lease payments under noncancellable operating leases are as follows as of April 30, 2016:

2017	\$ 189,689
2018	160,678
2019	67,611
2020	62,992
2021	20,997
	<u>\$ 501,967</u>

## Note 7 – Line of Credit

On October 28, 2015, the University entered into an amended agreement to extend the line-of-credit through October 27, 2016. The amended agreement includes an interest rate equal to LIBOR plus 2.45% and maximum borrowings of \$15,000,000. There were no outstanding balances under the advancing term loan or line-of-credit at April 30, 2016 or 2015.

## Note 8 – Temporarily Restricted Net Assets

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

	2016	2015
Split-interest agreements	\$ 3,684,234	\$ 4,256,368
Scholarships	3,212,210	3,097,650
Capital investment	3,487,738	4,188,224
Beneficial interests in assets held by others	3,287,037	3,411,763
Other purpose restrictions	17,322,785	19,677,819
Total temporarily restricted net assets	<u>\$ 30,994,004</u>	<u>\$ 34,631,824</u>



Net assets temporarily restricted for capital investment consist primarily of contributions designated for on-campus construction projects 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:

	2016	2015
School of Business	\$ 458,429	\$ 348,359
School of Theology	2,335,769	2,333,328
School of Education	597,490	597,211
School of Arts and Sciences	1,352,806	1,350,144
School of Nursing	21,659,481	21,658,556
General scholarships	10,681,197	10,397,963
General activities of the University	4,811,752	4,667,994
Total permanently restricted net assets	<u>\$ 41,896,924</u>	<u>\$ 41,353,555</u>

The University's endowment trust consists of approximately 250 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 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 the endowment fund and the remainder to the University's unrestricted fund

For the years ended April 30, 2016 and 2015, CityPlex's income before depreciation and amortization was approximately \$1,686,000 and \$2,405,000, respectively. The guaranteed 5% return of \$1,743,891 for 2016 and 2015, is reported in the consolidated statement of activities as a transfer from unrestricted net assets to temporarily and permanently restricted net assets. Net assets released from restrictions in 2016 include appropriation by the board of trustees of all endowment earnings which were used for the restricted purposes as scheduled above.

Endowment trust assets consisting of cash and cash equivalents and marketable securities are summarized in the table below:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investments, April 30, 2014	\$ 48,392	\$ 3,062,108	\$ 6,248,878	\$ 9,359,378
Investment return:				
Investment income	870	122,755	53,150	176,775
Net realized and unrealized appreciation	690	97,358	42,154	140,202
Total investment return	1,560	220,113	95,304	316,977
Joint venture agreement income	369,198	1,305,388	69,305	1,743,891
Contributions	-	-	62,242	62,242
Appropriation of endowment assets for expenditure	(367,386)	(1,860,612)	-	(2,227,998)
Investments, April 30, 2015	51,764	2,726,997	6,475,729	9,254,490
Investment return:				
Investment income	416	93,616	54,367	148,399
Net realized and unrealized depreciation	(1,178)	(419,174)	-	(420,352)
Total investment return	(762)	(325,558)	54,367	(271,953)
Joint venture agreement income	368,032	1,305,723	70,136	1,743,891
Contributions	-	-	418,866	418,866
Appropriation of endowment assets for expenditure	(366,423)	(1,188,591)	-	(1,555,014)
Investments, April 30, 2016	\$ 52,611	\$ 2,518,571	\$ 7,019,098	\$ 9,590,280

#### Note 10 – Employee Benefit 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). Effective as of May 1, 2012, the University provides a 50% matching contribution on deferrals up to 6% of the eligible employees' compensation. The University's portion of the contribution for the years ended April 30, 2016 and 2015, was approximately \$653,000 and \$625,000, respectively.

Effective January 1, 2015, the University implemented a group medical plan for its comprehensive major medical insurance which is self-insured with per claim stop-loss coverage of \$125,000 in 2016 and 2015. The University paid claims and premiums of approximately \$3,737,000 and \$3,911,000 during the year ended April 30, 2016 and 2015, respectively. At April 30, 2016 and 2015, the University accrued

approximately \$370,000 and \$680,000, respectively, for the estimated liability for employee benefit claims reported but not yet paid and claims incurred but not yet reported. This estimate is based on payment reporting patterns available at the time of the estimate. Although such estimates are the University's best estimates of the expected values, the actual results may vary from these values.

**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 consolidated financial statements.