



**CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2014 and 2013**

**WITH**

**INDEPENDENT AUDITOR'S REPORTS**

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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 (the University) which comprise the consolidated statements of financial position as of April 30, 2014 and 2013, 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 Oral Roberts University as of April 30, 2014 and 2013, 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*

September 3, 2014

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**April 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$ 35,596,613	\$ 30,845,508
Accounts receivable, net	2,967,812	2,644,627
Contributions receivable, net	3,124,128	986,125
Investments	10,912,743	12,482,921
Prepaid expenses and other assets	3,298,757	3,500,487
Student loans receivable, net	23,374,170	23,120,612
Commercial real estate, net	32,285,722	31,132,265
Educational plant, net	82,475,391	81,858,664
Beneficial interest in assets held by others	3,683,435	4,022,563
	<b>\$ 197,718,771</b>	<b>\$ 190,593,772</b>
<b>Liabilities and Net Assets</b>		
Notes payable	\$ -	\$ 180,197
Accounts payable and accrued expenses	11,788,736	10,853,784
Deferred revenue	2,468,021	2,936,996
Obligations under split-interest agreements	1,815,392	1,880,452
Government advances for student loans	20,040,021	20,022,828
	<b>36,112,170</b>	<b>35,874,257</b>
<b>Net assets:</b>		
Unrestricted	88,742,431	85,304,746
Temporarily restricted	31,737,466	28,924,236
Permanently restricted	41,126,704	40,490,533
	<b>161,606,601</b>	<b>154,719,515</b>
<b>Total net assets</b>	<b>\$ 197,718,771</b>	<b>\$ 190,593,772</b>
<b>Total liabilities and net assets</b>	<b>\$ 197,718,771</b>	<b>\$ 190,593,772</b>

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2014**  
**(with comparative totals for the year ended April 30, 2013)**

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues, gains and other support</b>					
Tuition and fees	\$ 63,368,930	\$ -	\$ -	\$ 63,368,930	\$ 62,556,016
Room, board and other auxiliary services	21,685,494	-	-	21,685,494	21,390,577
Less: scholarships and fellowships	(29,380,032)	-	-	(29,380,032)	(27,806,128)
Net tuition, fees and auxiliary services	55,674,392	-	-	55,674,392	56,140,465
Contributions	5,099,602	23,375,156	411,616	28,886,374	21,200,146
Investment return	62,080	672,874	163,148	898,102	1,066,089
Contracts and grants	1,213,591	927,325	-	2,140,916	1,916,923
Commercial real estate operations	8,539,283	-	-	8,539,283	8,966,704
Other support	5,271,013	177,225	-	5,448,238	4,619,034
Net assets transfers - Joint					
Venture Agreement (Note 9)	(1,743,891)	1,682,484	61,407	-	-
Net assets released from restrictions	24,021,834	(24,021,834)	-	-	-
Total revenues, gains and other support	98,137,904	2,813,230	636,171	101,587,305	93,909,361
<b>Expenses and losses</b>					
Education and general:					
Instruction	24,239,561	-	-	24,239,561	24,074,740
Research	263,819	-	-	263,819	328,284
Public service	2,506,892	-	-	2,506,892	1,750,071
Academic support	3,349,711	-	-	3,349,711	3,347,833
Student services	7,596,351	-	-	7,596,351	8,061,020
Institutional support	23,359,379	-	-	23,359,379	22,722,015
Room, board and other auxiliary services	21,117,129	-	-	21,117,129	20,670,986
Total education and general expenses	82,432,842	-	-	82,432,842	80,954,949
Commercial real estate operations	9,742,769	-	-	9,742,769	9,620,784
Other expenses	2,524,608	-	-	2,524,608	2,115,125
Total expenses and losses	94,700,219	-	-	94,700,219	92,690,858
Increase in net assets	3,437,685	2,813,230	636,171	6,887,086	1,218,503
Net assets, beginning of year	85,304,746	28,924,236	40,490,533	154,719,515	153,501,012
Net assets, end of year	\$ 88,742,431	\$ 31,737,466	\$ 41,126,704	\$ 161,606,601	\$ 154,719,515

See notes to consolidated financial statements.

**ORAL ROBERTS UNIVERSITY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support</b>				
Tuition and fees	\$ 62,556,016	\$ -	\$ -	\$ 62,556,016
Room, board and other auxiliary services	21,390,577	-	-	21,390,577
Less: scholarships and fellowships	(27,806,128)	-	-	(27,806,128)
Net tuition, fees and auxiliary services	56,140,465	-	-	56,140,465
Contributions	1,003,796	20,065,218	131,132	21,200,146
Investment return	50,732	827,095	188,262	1,066,089
Contracts and grants	1,250,153	666,770	-	1,916,923
Commercial real estate operations	8,966,704	-	-	8,966,704
Other support	4,096,760	522,274	-	4,619,034
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,688,611	55,280	-
Net assets released from restrictions	30,327,672	(30,327,672)	-	-
Total revenues, gains and other support	100,092,391	(6,557,704)	374,674	93,909,361
<b>Expenses and losses</b>				
Education and general:				
Instruction	24,074,740	-	-	24,074,740
Research	328,284	-	-	328,284
Public service	1,750,071	-	-	1,750,071
Academic support	3,347,833	-	-	3,347,833
Student services	8,061,020	-	-	8,061,020
Institutional support	22,722,015	-	-	22,722,015
Room, board and other auxiliary services	20,670,986	-	-	20,670,986
Total education and general expenses	80,954,949	-	-	80,954,949
Commercial real estate operations	9,620,784	-	-	9,620,784
Other expenses	2,115,125	-	-	2,115,125
Total expenses and losses	92,690,858	-	-	92,690,858
Increase (decrease) in net assets	7,401,533	(6,557,704)	374,674	1,218,503
Net assets, beginning of year	77,903,213	35,481,940	40,115,859	153,501,012
Net assets, end of year	\$ 85,304,746	\$ 28,924,236	\$ 40,490,533	\$ 154,719,515

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended April 30, 2014 and 2013**

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 6,887,086	\$ 1,218,503
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	11,428,553	13,045,608
Realized and unrealized gain on investments	(527,960)	(692,257)
Loss on disposal of educational plant	66,859	-
Student loans cancelled	383,497	405,472
Provision for bad debts	292,508	(73,095)
Donated assets	(81,648)	(17,124)
Contributions restricted for long-term purposes	(9,911,397)	(10,215,264)
Change in:		
Accounts receivable	(487,911)	118,005
Contributions receivable	(2,221,584)	(316,045)
Prepaid expenses and other assets	201,730	(83,597)
Beneficial interest in assets held by others	339,128	(2,030)
Accounts payable and accrued expenses	934,952	986,016
Deferred revenue	(455,835)	(339,666)
Government advances for student loans	17,193	(36,711)
Net cash provided by operating activities	6,865,171	3,997,815
<b>Cash Flows from Investing Activities</b>		
Purchases of educational plant	(8,403,122)	(16,194,231)
Purchases of commercial real estate assets	(4,856,383)	(2,865,950)
Purchases of investments	(3,350,975)	(4,393,859)
Proceeds from sale of investments	5,524,670	3,817,517
Student loan collections	2,732,392	2,649,080
Student loans granted	(3,413,648)	(2,543,313)
Net cash used in investing activities	(11,767,066)	(19,530,756)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for long-term purposes	9,911,397	10,215,264
Payments on notes payable	(180,197)	(174,401)
Other	(78,200)	(273,132)
Net cash provided by financing activities	9,653,000	9,767,731
Net increase (decrease) in cash and cash equivalents	4,751,105	(5,765,210)
Cash and cash equivalents, beginning of year	30,845,508	36,610,718
Cash and cash equivalents, end of year	\$ 35,596,613	\$ 30,845,508



## ORAL ROBERTS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2014 and 2013

#### 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 61 undergraduate majors, many with national accreditation, as well as 13 master's-level programs and two doctoral degrees. The most popular majors include: Nursing, Business, Media, Ministry and Leadership and Biology. 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 3,400 for-credit students from 50 states and 72 countries. The alumni population consists of approximately 26,000 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 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 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.

#### 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 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% 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 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 \$6,195,000 and \$6,398,000 at April 30, 2014 and 2013, respectively.

Cash paid for interest, primarily related to split-interest agreements, was approximately \$290,000 and \$321,000 for the years ended April 30, 2014 and 2013, 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 \$2,867,000 and \$2,262,000 in 2014 and 2013, 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. 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, 2011.

#### Concentrations

ORU has cash deposits 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, 2014 and 2013, ORU received contributions of approximately \$21,764,000 and \$14,050,000, 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).

Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current-year presentation. These reclassifications had no effect on previously reported operations or net assets.

Subsequent events

Management has evaluated subsequent events through September 3, 2014, the date the financial statements were available to be issued.

**Note 2 – Receivables**

Accounts receivable at April 30 consist of the following:

	2014	2013
Student tuition and fees, net of \$1,767,315 and \$1,685,421 allowance for doubtful accounts, respectively	\$ 405,442	\$ 398,809
Contracts and grants receivable	58,788	17,481
Rental property receivables, net of \$100,300 and \$21,384 allowance for doubtful accounts, respectively	1,680,886	1,403,011
Other receivables	822,696	825,326
	<u>\$ 2,967,812</u>	<u>\$ 2,644,627</u>

Contributions receivable at April 30 are due as follows:

	2014	2013
One year or less	\$ 2,524,128	\$ 1,022,543
One to five years	1,000,000	134,880
More than five years	-	131,106
	<u>3,524,128</u>	<u>1,288,529</u>
Allowance for uncollectible accounts	(400,000)	(302,404)
	<u>\$ 3,124,128</u>	<u>\$ 986,125</u>

**Note 3 – Investments**

Investments at April 30 consist of the following:

	2014	2013
Equity mutual funds	\$ 7,164,749	\$ 6,953,827
Bond mutual funds	916,510	1,301,595
Government backed securities	1,744,826	1,935,145
Corporate bonds	536,108	720,620
Corporate equities	550,550	1,571,734
	<u>\$ 10,912,743</u>	<u>\$ 12,482,921</u>

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

	2014	2013
Interest and dividends	\$ 370,142	\$ 373,832
Realized and unrealized gain on investments	527,960	692,257
	<u>\$ 898,102</u>	<u>\$ 1,066,089</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:

	2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 7,164,749	\$ 7,164,749	\$ -	\$ -
Bond mutual funds	916,510	916,510	-	-
Government-back securities	1,744,826	1,703,492	41,334	-
Corporate bonds	536,108	-	536,108	-
Corporate equity	550,550	550,550	-	-
	<u>\$ 10,912,743</u>	<u>\$ 10,335,301</u>	<u>\$ 577,442</u>	<u>\$ -</u>
	2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 6,953,827	\$ 6,953,827	\$ -	\$ -
Bond mutual funds	1,301,595	1,301,595	-	-
Government-back securities	1,935,145	1,873,406	61,739	-
Corporate bonds	720,620	-	720,620	-
Corporate equity	1,571,734	1,571,734	-	-
	<u>\$ 12,482,921</u>	<u>\$ 11,700,562</u>	<u>\$ 782,359</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 – Commercial Real Estate

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

	2014	2013	Estimated Useful Lives
Land	\$ 2,815,144	\$ 2,815,144	-
Buildings and improvements	98,024,888	95,630,991	20-50 years
Equipment	28,596,806	28,431,325	3-10 years
Tenant improvements	3,229,818	3,147,004	various
	<u>132,666,656</u>	<u>130,024,464</u>	
Less accumulated depreciation	(104,065,534)	(100,362,499)	
	28,601,122	29,661,965	
Construction in progress	<u>3,684,600</u>	<u>1,470,300</u>	
	<u>\$ 32,285,722</u>	<u>\$ 31,132,265</u>	

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

	2014	2013
Tenant rental income	<u>\$ 8,539,283</u>	<u>\$ 8,966,704</u>
Operating expenses:		
Property management	360,000	360,000
Leasing commissions	232,713	297,004
Utilities	1,544,532	1,365,586
Operations and maintenance	<u>3,902,598</u>	<u>3,860,590</u>
	6,039,843	5,883,180
Operating income before depreciation	2,499,440	3,083,524
Depreciation	<u>3,702,926</u>	<u>3,737,604</u>
Net operating loss	<u>\$ (1,203,486)</u>	<u>\$ (654,080)</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, 2014, are as follows:

2015	\$ 7,681,527
2016	6,550,610
2017	3,850,794
2018	2,426,208
2019	1,646,174
Thereafter	<u>4,070,163</u>
	<u>\$ 26,225,476</u>

## Note 6 – Educational Plant

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

	2014	2013	Estimated Useful Lives
Land and improvements	\$ 12,188,991	\$ 12,123,847	20 years
Buildings and improvements	126,393,329	123,026,053	20-50 years
Equipment	40,322,782	38,109,609	3-10 years
Vehicles	1,732,462	1,651,696	5 years
Library books	8,576,583	8,451,862	20 years
	189,214,147	183,363,067	
Less accumulated depreciation	(109,414,239)	(101,933,892)	
	79,799,908	81,429,175	
Construction in progress	2,675,483	429,489	
	\$ 82,475,391	\$ 81,858,664	

Depreciation expense related to educational plant was approximately \$7,726,000 and \$9,307,000 for the years ended April 30, 2014 and 2013, respectively.

## Note 7 – Notes Payable

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. The University closed the term note effective October 29, 2012. There were no outstanding balances under the advancing term loan or line-of-credit at April 30, 2014 or 2013.

## Note 8 – Temporarily Restricted Net Assets

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

	2014	2013
Split-interest agreements	\$ 4,443,300	\$ 4,604,828
Scholarships	3,932,648	5,149,093
Capital investment	5,048,033	9,704,699
Beneficial interests in assets held by others	3,683,435	4,022,563
Other purpose restrictions	14,630,050	5,443,053
Total temporarily restricted net assets	\$ 31,737,466	\$ 28,924,236

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:

	2014	2013
School of Business	\$ 336,101	\$ 304,679
School of Theology	2,330,918	2,325,754
School of Education	596,510	599,693
School of Arts and Sciences	1,323,429	1,307,651
School of Nursing	21,655,356	21,651,979
General scholarships	10,366,447	10,011,243
General activities of the University	4,517,943	4,289,534
Total permanently restricted net assets	<u>\$ 41,126,704</u>	<u>\$ 40,490,533</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, 2014 and 2013, CityPlex's income before depreciation and amortization was approximately \$2,499,000 and \$3,084,000, respectively. The guaranteed 5% return of \$1,743,891 for 2014 and 2013 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 2014 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 \$6,379,000 and \$7,359,000, at April 30, 2014 and 2013, 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). 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, 2014 and 2013, was approximately \$582,000 and \$557,000, respectively.

#### **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.