



**FINANCIAL STATEMENTS**

**APRIL 30, 2013 and 2012**

**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, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oral Roberts University as of April 30, 2013 and 2012, 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.

*Hogan Taylor LLP*

September 16, 2013

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**April 30, 2013 and 2012**

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 30,845,508	\$ 36,610,718
Accounts receivable, net	2,644,627	3,120,679
Contributions receivable, net	986,125	327,106
Investments	12,482,921	11,214,322
Prepaid expenses and other assets	3,500,487	3,416,890
Student loans receivable, net	23,120,612	23,543,683
Commercial real estate, net	31,132,265	32,004,814
Educational plant, net	81,858,664	74,954,418
Beneficial interest in assets held by others	4,022,563	4,020,533
	<b>\$ 190,593,772</b>	<b>\$ 189,213,163</b>
<b>Liabilities and Net Assets</b>		
Notes payable	\$ 180,197	\$ 354,598
Accounts payable and accrued expenses	10,853,784	9,867,768
Deferred revenue	2,936,996	3,276,662
Obligations under split-interest agreements	1,880,452	2,153,584
Government advances for student loans	20,022,828	20,059,539
	<b>35,874,257</b>	<b>35,712,151</b>
<b>Net assets:</b>		
Unrestricted	85,304,746	77,903,213
Temporarily restricted	28,924,236	35,481,940
Permanently restricted	40,490,533	40,115,859
	<b>154,719,515</b>	<b>153,501,012</b>
<b>Total net assets</b>	<b>\$ 190,593,772</b>	<b>\$ 189,213,163</b>
<b>Total liabilities and net assets</b>	<b>\$ 190,593,772</b>	<b>\$ 189,213,163</b>

**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	452,750	562,607	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	(29,953,327)	(374,345)	-
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
Interest on indebtedness	-	-	-	-
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

See notes to consolidated financial statements.

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

**Year ended April 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support</b>				
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
<b>Expenses and losses</b>				
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

See notes to consolidated financial statements.

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended April 30, 2013 and 2012**

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,218,503	\$ 9,743,804
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	13,045,608	12,101,527
Realized and unrealized gain on investments	(692,257)	(149,495)
Loss on disposal of land and educational plant	-	14,315
Student loans cancelled	405,472	397,173
Provision for bad debts	(73,095)	631,012
Donated assets	(17,124)	(64,943)
Contributions restricted for long-term purposes	(10,215,264)	(25,967,956)
(Increase) decrease in:		
Accounts receivable	118,005	(573,783)
Contributions receivable	(316,045)	5,324,577
Prepaid expenses and other assets	(83,597)	(48,711)
Beneficial interest in assets held by others	(2,030)	(541,901)
Increase (decrease) in:		
Accounts payable and accrued liabilities	986,016	(987,343)
Deferred revenue	(339,666)	(338,891)
Refundable federal student loans	(36,711)	(428,503)
Net cash provided by (used in) operating activities	3,997,815	(889,118)
<b>Cash Flows from Investing Activities</b>		
Purchases of educational plant	(16,194,231)	(9,619,248)
Purchases of commercial real estate assets	(2,865,950)	(657,798)
Purchases of investments	(4,393,859)	(9,878,855)
Proceeds from sale of investments	3,817,517	5,713,110
Student loan collections	2,649,080	2,924,111
Student loans granted	(2,543,313)	(1,994,584)
Net cash used in investing activities	(19,530,756)	(13,513,264)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for long-term purposes	10,215,264	25,967,956
Payments on notes payable	(174,401)	(10,318,318)
Proceeds from notes payable	-	7,507,762
Other	(273,132)	(67,664)
Net cash provided by financing activities	9,767,731	23,089,736
Net increase in cash and cash equivalents	(5,765,210)	8,687,354
Cash and cash equivalents, beginning of year	36,610,718	27,923,364
Cash and cash equivalents, end of year	\$ 30,845,508	\$ 36,610,718

# ORAL ROBERTS UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2013 and 2012

### 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 13 master's-level programs and two doctoral degrees. The most popular majors include: Nursing, Business, Media, Ministry and Leadership, 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 approximately 3,335 for-credit students from 50 states and 65 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.



### 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 approximately \$321,000 and \$438,000 for the years ended April 30, 2013 and 2012, 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 \$6,398,000 and \$6,469,000 at April 30, 2013 and 2012, 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. It has not experienced any losses in such accounts.

During the years ended April 30, 2013 and 2012, ORU received contributions of approximately \$14,050,000 and \$27,800,000, 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, 2010.

#### 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 \$2,262,000 and \$1,592,000 in 2013 and 2012, respectively.

### Subsequent events

Management has evaluated subsequent events through September 16, 2013, the date the financial statements were available to be issued.

### **Note 2 – Receivables**

Accounts receivable at April 30 consist of the following:

	2013	2012
Student tuition and fees, net of \$1,685,421 and \$2,034,815 allowance for doubtful accounts, respectively	\$ 398,809	\$ 516,212
Contracts and grants receivable	17,481	41,197
Rental property receivables, net of \$21,384 and \$78,472 allowance for doubtful accounts, respectively	1,403,011	1,082,264
Other receivables	825,326	1,481,006
	<u>\$ 2,644,627</u>	<u>\$ 3,120,679</u>

Contributions receivable at April 30 are due as follows:

	2013	2012
One year or less	\$ 1,022,543	\$ 671,498
One to five years	134,880	168,045
More than five years	131,106	130,102
	1,288,529	969,645
Allowance for uncollectible accounts	(302,404)	(642,539)
	<u>\$ 986,125</u>	<u>\$ 327,106</u>

### **Note 3 – Investments**

Investments at April 30 consist of the following:

	2013	2012
Equity mutual funds	\$ 6,953,827	\$ 4,085,812
Bond mutual funds	1,301,595	3,197,871
Government backed securities	1,935,145	1,776,282
Corporate bonds	720,620	862,242
Corporate equity	1,571,734	1,292,115
	<u>\$ 12,482,921</u>	<u>\$ 11,214,322</u>

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

	2013	2012
Interest and dividends	\$ 373,832	\$ 362,934
Realized and unrealized gain on investments	692,257	149,495
	<u>\$ 1,066,089</u>	<u>\$ 512,429</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:

	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>
	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>

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:

	2013	2012	Estimated Useful Lives
Land and improvements	\$ 12,123,847	\$ 11,559,932	20 years
Buildings and improvements	123,026,053	104,716,482	20-50 years
Equipment	38,109,609	36,161,223	3-10 years
Vehicles	1,651,696	1,543,285	5 years
Library books	8,451,862	8,307,630	20 years
	183,363,067	162,288,552	
Less accumulated depreciation	(101,933,892)	(92,623,351)	
	81,429,175	69,665,201	
Construction in progress	429,489	5,289,217	
	<u>\$ 81,858,664</u>	<u>\$ 74,954,418</u>	

Depreciation expense related to educational plant was approximately \$9,307,000 and \$8,114,000 for the years ended April 30, 2013 and 2012, respectively.

## Note 6 – Commercial Real Estate

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

	2013	2012	Estimated Useful Lives
Land	\$ 2,815,144	\$ 2,815,144	-
Buildings and improvements	95,630,991	93,536,619	20-50 years
Equipment	28,431,325	28,158,147	3-10 years
Tenant improvements	3,147,004	2,649,739	Various
	130,024,464	127,159,649	
Less accumulated depreciation	(100,362,499)	(96,623,935)	
	29,661,965	30,535,714	
Construction in progress	1,470,300	1,469,100	
	<u>\$ 31,132,265</u>	<u>\$ 32,004,814</u>	

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

	<u>2013</u>	<u>2012</u>
Tenant rental income	\$ 8,966,704	\$ 8,846,469
Operating expenses:		
Property management	360,000	394,707
Leasing commissions	297,004	274,027
Utilities	1,365,586	2,111,830
Operations and maintenance	3,860,590	3,946,627
Interest on indebtedness	-	55,183
	<u>5,883,180</u>	<u>6,782,374</u>
Operating income before depreciation	3,083,524	2,064,095
Depreciation	<u>3,737,604</u>	<u>3,987,995</u>
Net operating loss	<u>\$ (654,080)</u>	<u>\$ (1,923,900)</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, 2013, are as follows:

2014	\$ 7,908,095
2015	6,763,912
2016	5,584,134
2017	2,936,996
2018	1,657,486
Thereafter	<u>2,042,229</u>
	<u>\$ 26,892,852</u>

#### **Note 7 – Notes Payable**

The University maintains a capital lease collateralized by equipment with a maturity date of July 1, 2014. The outstanding balance on April 30, 2013 and 2012, is approximately \$180,000 and \$354,000, respectively.

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, 2013 or 2012.

## Note 8 – Temporarily Restricted Net Assets

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

	2013	2012
Split-interest agreements	\$ 4,604,828	\$ 4,306,792
Scholarships	5,149,093	4,153,493
Capital investment	9,704,699	17,940,016
Beneficial interests in assets held by others	4,022,563	4,020,533
Other purpose restrictions	5,443,053	5,061,106
Total temporarily restricted net assets	<u>\$ 28,924,236</u>	<u>\$ 35,481,940</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:

	2013	2012
School of Business	\$ 304,679	\$ 281,701
School of Theology	2,325,754	2,322,072
School of Education	599,693	594,631
School of Arts and Sciences	1,307,651	1,250,076
School of Nursing	21,651,979	21,640,250
General scholarships	10,011,243	9,946,655
General activities of the University	4,289,534	4,080,474
Total permanently restricted net assets	<u>\$ 40,490,533</u>	<u>\$ 40,115,859</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, 2013 and 2012, CityPlex's income before depreciation and amortization was approximately \$3,084,000 and \$2,064,000, respectively. The guaranteed 5% return of \$1,743,891 for 2013 and 2012 is reported in the statement of activities as a transfer from unrestricted net assets to temporarily and permanently restricted net assets. Net assets released from restrictions in 2013 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 \$7,359,000 and \$5,402,000, at April 30, 2013 and 2012, 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 will provide a 50% matching contribution on deferrals up to 6% of the eligible employees' compensation. The University's portion of the contribution for the year ended April 30, 2013, was approximately \$557,000.

#### **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.