



**CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2020 and 2019**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Oral Roberts University

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

We have audited the accompanying consolidated financial statements of Oral Roberts University and affiliate (collectively, the University) which comprise the consolidated statements of financial position as of April 30, 2020 and 2019, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, 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 from 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 the University as of April 30, 2020 and 2019, 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.



Tulsa, Oklahoma  
September 23, 2020

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**April 30, 2020 and 2019**

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 29,217,731	\$ 30,569,749
Accounts receivable, net	3,093,347	4,029,594
Contributions receivable, net	2,573,599	2,000,244
Investments	13,192,523	12,925,116
Certificates of deposit	-	2,483,626
Prepaid expenses and other assets	4,857,808	5,027,762
Student loans receivable, net	20,500,633	22,948,100
Commercial real estate, net	35,396,570	34,526,815
Educational plant, net	85,541,599	83,022,204
Beneficial interest in assets held by others	1,699,548	1,417,993
	<b>\$ 196,073,358</b>	<b>\$ 198,951,203</b>
<b>Total assets</b>		
 <b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 12,015,733	\$ 12,860,490
Deferred revenue	3,400,984	3,736,001
Obligations under capital leases	288,165	505,355
Obligations under split-interest agreements	1,112,860	1,262,560
Government advances for student loans	19,307,862	20,371,835
	36,125,604	38,736,241
<b>Total liabilities</b>		
 <b>Net assets:</b>		
Without donor restrictions	92,851,894	77,196,904
With donor restrictions	67,095,860	83,018,058
	159,947,754	160,214,962
<b>Total net assets</b>		
	<b>\$ 196,073,358</b>	<b>\$ 198,951,203</b>
<b>Total liabilities and net assets</b>		

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2020  
(with comparative totals for the year ended April 30, 2019)**

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>Revenues, gains and other support</b>				
Tuition and fees	\$ 86,380,671	\$ -	\$ 86,380,671	\$ 82,807,614
Room, board and other auxiliary services	21,608,877	-	21,608,877	24,233,645
Less: scholarships and fellowships	(44,766,585)	-	(44,766,585)	(43,153,030)
Net tuition, fees and auxiliary services	63,222,963	-	63,222,963	63,888,229
Contributions	1,985,142	18,751,652	20,736,794	30,215,233
Contracts and grants	1,808,547	1,958,898	3,767,445	1,333,181
Investment return	459,389	(489,713)	(30,324)	1,083,713
Commercial real estate operations	10,929,723	-	10,929,723	11,105,438
Other support	5,609,820	151,261	5,761,081	6,896,900
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,743,891	-	-
Net assets released from restrictions	38,038,187	(38,038,187)	-	-
Total revenues, gains and other support	120,309,880	(15,922,198)	104,387,682	114,522,694
<b>Expenses</b>				
Education and general:				
Instruction	26,892,484	-	26,892,484	26,366,669
Research	44,222	-	44,222	101,944
Public service	3,009,625	-	3,009,625	3,368,386
Academic support	3,998,040	-	3,998,040	4,237,677
Student services	12,795,366	-	12,795,366	12,445,590
Institutional support	22,929,914	-	22,929,914	23,148,387
CARES Act emergency financial aid	1,319,700	-	1,319,700	-
Room, board and other auxiliary services	20,091,882	-	20,091,882	20,913,989
Total education and general expenses	91,081,233	-	91,081,233	90,582,642
Commercial real estate operations	10,406,137	-	10,406,137	9,638,432
Other expenses	3,167,520	-	3,167,520	3,029,235
Total expenses	104,654,890	-	104,654,890	103,250,309
Change in net assets	15,654,990	(15,922,198)	(267,208)	11,272,385
Net assets, beginning of year	77,196,904	83,018,058	160,214,962	148,942,577
Net assets, end of year	\$ 92,851,894	\$ 67,095,860	\$ 159,947,754	\$ 160,214,962

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains and other support</b>			
Tuition and fees	\$ 82,807,614	\$ -	\$ 82,807,614
Room, board and other auxiliary services	24,233,645	-	24,233,645
Less: scholarships and fellowships	(43,153,030)	-	(43,153,030)
Net tuition, fees and auxiliary services	63,888,229	-	63,888,229
Contributions	1,127,063	29,088,170	30,215,233
Contracts and grants	1,047,422	285,759	1,333,181
Investment return	477,675	606,038	1,083,713
Commercial real estate operations	11,105,438	-	11,105,438
Other support	6,879,040	17,860	6,896,900
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,743,891	-
Net assets released from restrictions	20,477,802	(20,477,802)	-
Total revenues, gains and other support	103,258,778	11,263,916	114,522,694
<b>Expenses</b>			
Education and general:			
Instruction	26,366,669	-	26,366,669
Research	101,944	-	101,944
Public service	3,368,386	-	3,368,386
Academic support	4,237,677	-	4,237,677
Student services	12,445,590	-	12,445,590
Institutional support	23,148,387	-	23,148,387
Room, board and other auxiliary services	20,913,989	-	20,913,989
Total education and general expenses	90,582,642	-	90,582,642
Commercial real estate operations	9,638,432	-	9,638,432
Other expenses	3,029,235	-	3,029,235
Total expenses	103,250,309	-	103,250,309
Change in net assets	8,469	11,263,916	11,272,385
Net assets, beginning of year	77,188,435	71,754,142	148,942,577
Net assets, end of year	\$ 77,196,904	\$ 83,018,058	\$ 160,214,962

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended April 30, 2020 and 2019**

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (267,208)	\$ 11,272,385
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,321,746	10,622,600
Realized and unrealized loss (gain) on investments	787,712	(289,146)
Loss on disposal of educational plant	2,568	30,804
Student loans cancelled	244,379	235,652
Provision for bad debts	2,193,405	259,017
Donated assets	(72,321)	(450,293)
Change in beneficial interest in assets held by others	(281,555)	557,486
Contributions restricted for long-term purposes	(7,775,182)	(21,647,003)
Change in operating assets and liabilities:		
Accounts receivable	(496,904)	(1,061,175)
Contributions receivable	(114,973)	4,846,559
Prepaid expenses and other assets	169,954	(1,072,542)
Accounts payable and accrued expenses	(844,757)	2,146
Deferred revenue	(335,017)	(263,832)
Government advances for student loans	(1,063,973)	48,198
Net cash provided by operating activities	3,467,874	3,090,856
<b>Cash Flows from Investing Activities</b>		
Purchases of educational plant	(10,640,277)	(16,602,233)
Purchases of commercial real estate assets	(4,062,187)	(3,261,534)
Purchases of investments	(4,546,496)	(2,996,805)
Proceeds from sale of investments	3,535,049	4,063,938
Proceeds from the sale of certificates of deposit	2,501,275	484,000
Student loan collections	2,608,862	2,312,771
Student loans granted	(1,624,410)	(741,200)
Net cash used in investing activities	(12,228,184)	(16,741,063)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for long-term purposes	7,775,182	21,647,003
Payments on capital lease obligations	(217,190)	(154,435)
Other	(149,700)	(19,367)
Net cash provided by financing activities	7,408,292	21,473,201
Net change in cash and cash equivalents	(1,352,018)	7,822,994
Cash and cash equivalents, beginning of year	30,569,749	22,746,755
Cash and cash equivalents, end of year	\$ 29,217,731	\$ 30,569,749
<b>Noncash Investing Activity</b>		
Equipment acquired under capital leases	\$ -	\$ 659,790

# ORAL ROBERTS UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

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

#### Nature of Operations

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 80 undergraduate majors, as well as 16 masters-level programs and three doctoral degrees. The most popular majors include: Nursing, Psychology, Ministry and Leadership, Engineering, and Business Administration. 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 4,000 for-credit students from all 50 states and 115 nations. The alumni population consists of approximately 60,000 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 University Broadcasting, Inc. (UBI), which is under the financial control of ORU. Significant intercompany balances and transactions of UBI were eliminated in consolidation. Oral Roberts University and UBI 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 (U.S. GAAP). 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 herein are classified as follows:

*Net Assets Without Donor Restrictions* – 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 net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Investment returns generated by funds without donor restrictions are classified as changes in net assets without donor restriction. Certain net assets classified as without donor restrictions are board-designated for specific purposes. Expenses are reported as decreases in net assets without donor restrictions.

*Net Assets With Donor Restrictions* – 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. Items that affect this net asset category are gifts with donor-imposed restrictions, including gifts and grants for buildings and equipment not yet placed in service; endowment gifts with donor-imposed restrictions requiring that they be maintained permanently by the University; unconditional promises to give; and investment returns



on split-interest agreements and endowment funds. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

### Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

### Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

### Cash and cash equivalents

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

### Accounts receivable

Accounts receivable primarily consists of student accounts receivables for tuition and fees. Student accounts receivable are stated at the amount of consideration from students of which the University has an unconditional right to receive. Tuition, fees and auxiliary services, such as room and board, are generally due at the beginning of the semester unless the student has signed a payment plan. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### Contributions receivable

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 contribution revenue to the respective net asset class.

### Investments

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 consolidated financial statements.

### Student loans receivable and government advances for student loans

Student loans receivable are recorded at their net realizable value and primarily represent amounts due from students under federal Perkins and institutional loan programs. A general allowance is made for uncollectible student loans after considering both long-term collection experience and current trends, such as recent default rates of cohorts entering repayment status.

In the event that the University no longer participates in the Perkins program, a portion of the amounts are generally refundable to the federal government. Perkins loans that are in default and meet certain requirements can be assigned to the U.S. Department of Education (DOE), which reduces the government advances for student loans. The DOE has notified schools that the Perkins loan program has expired and that no Perkins loan disbursements are permitted. The University will continue to administer the remaining student loans and follow the guidelines from the DOE on the wind-down of the Perkins program.

#### Commercial real estate

Commercial real estate is comprised of a three-tower, 2.2 million square foot office complex known as CityPlex Towers (CityPlex). 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. 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.

#### Educational plant

Purchased property, plant and equipment are generally recorded at cost. Equipment under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. 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, or over the lease term for capital leases. Property, plant and equipment and related accumulated depreciation are removed from the accounting records at the time of disposal.

The University records an impairment to its property, plant and equipment, including commercial real estate, if it becomes probable that the carrying values of the assets will not be fully recovered. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values determined by the University based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions and other information. No impairment adjustments were recorded during the years ended April 30, 2020 or 2019.

#### Beneficial interests in assets held by others

The ORU Golden Eagle Club, Inc. receives contributions and holds assets for which the University is designated the beneficiary by the donor. The net assets of this affiliated entity, determined on a fair value basis, are reported as net assets with donor restrictions. Contributions and subsequent changes in fair value are reported within net assets with donor restrictions. Beneficial interests in assets held by others also represent amounts held under irrevocable agreements and are carried at fair value.

#### 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. Contribution revenues are recognized in net assets with donor restrictions 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 \$3,163,000 and \$3,488,000 at April 30, 2020 and 2019, respectively, and are included in investments in the accompanying consolidated statements of financial position.

Contribution revenue from new and matured split-interest agreements was approximately \$2,000 and \$68,000 for the years ended April 30, 2020 and 2019, respectively. Cash paid for interest, primarily related to split-interest agreements, was approximately \$229,000 and \$249,000 for the years ended April 30, 2020 and 2019, respectively.

### Revenue recognition

Revenues are generally recognized when performance obligations are satisfied, or control of the promised goods or services is transferred to customers in an amount that reflects the consideration the University expects to be entitled to receive in exchange for those goods or services.

#### *Tuition and fees revenue and scholarships and fellowships*

Student tuition and fees are due at the start of each academic term based on published rates and are recognized as revenue during the fiscal year in which the related academic services are rendered. The academic terms begin and end within the same fiscal year, except for yearlong online courses. Payments received in advance of providing services are recorded as deferred revenue and recognized as revenue over time as academic services are rendered. Students who adjust their course load or withdraw near the beginning of an academic term may receive a full or partial refund in accordance with the University's refund policy. 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.

#### *Auxiliary services*

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty and staff or to the general public, and charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, intercollegiate athletics and college stores. Revenues are recognized at the time of sales or over the life of the contract as performance obligations are met. Amounts received in advance are recorded as deferred revenues.

#### *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. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. Bequests are recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. Conditional contributions are not recognized as revenue until the donor-imposed barrier is met.

#### *Contracts and grants*

Contracts and grants awarded by governmental and private entities are generally considered nonreciprocal transactions. Resources provided benefit the University, the funding entity's mission, or the general public at large. Revenue is recognized according to the conditions of the agreement; usually as qualifying expenditures

are incurred and conditions are met. Payment received in advance of conditions being met are recorded as deferred revenue.

#### *Investment return*

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 net assets with donor restrictions subject to expenditure for a specific purpose 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 net assets with donor restrictions subject to expenditure for a specific purpose.

#### *Commercial real estate operations*

Rental revenue earned through CityPlex and other properties owned by ORU is recorded on a straight-line basis over the terms of each lease. Rates are stated in the lease agreement and vary based on market conditions, the tenant's credit worthiness and other factors. Billings occur monthly. Late fees may be assessed for delinquent payments. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

#### *Other support*

Other support primarily consists of airtime and advertising contracts through the University's broadcasting networks. Revenue is recognized for the amount the University is entitled to receive, which occurs when the broadcasting programs are delivered through the television stations. Television contracts are generally short-term in nature and the lag between billing the customers and when the payment is due is not significant.

#### 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 consolidated 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.

#### Fundraising expenses

Fundraising expenses were approximately \$2,287,000 and \$2,517,000 for the years ended April 30, 2020 and 2019, 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 multiple financial institutions that generally exceed federally insured limits by significant amounts. It has not experienced any losses in such accounts.

ORU received contributions of approximately \$12,131,000 and \$20,425,000 from a single donor or entities affiliated with the donor during the years ended April 30, 2020 and 2019, respectively.

### 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).

### Recently adopted accounting pronouncements

In 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under this ASU, recognition of revenue from customer contracts is a principles-based framework ensuring that revenue is recognized in a manner which reflects the consideration the University is entitled in exchange for goods and services. The University adopted the provisions of this new standard on May 1, 2019 under the modified retrospective method. Adoption of the standard had no material effect on the University's consolidated financial statements, but did result in expanded disclosures about the University's sources of revenue in Note 1.

In 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The contributions standard aims to assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The University adopted the provisions of this new standard on May 1, 2019. Adoption of this standard had no material effect on the University's financial statements, but did result in changes in the disclosure about conditional contributions in Note 1.

### New accounting pronouncement

FASB has issued standard ASU 2016-02, *Leases (Topic 842)*, effective for the fiscal year ending April 30, 2023. The leases standard aims to increase transparency and comparability among organizations by

recognizing lease assets and lease liabilities on the consolidated statements of financial position and disclosing key information about leasing arrangements. The University is currently evaluating the impact this standard will have on its consolidated financial statements.

### Subsequent events

Management has evaluated subsequent events through September 23, 2020, the date the consolidated financial statements were available to be issued.

### **Note 2 – Receivables**

Accounts receivable at April 30, consist of the following:

	<u>2020</u>	<u>2019</u>
Student tuition and fees, net of \$3,823,327 and \$2,984,641 allowance for doubtful accounts, respectively	\$ 1,516,756	\$ 1,823,212
Contracts and grants receivable	89,863	231,448
Rental property receivables, net of \$501,152 and \$158,635 allowance for doubtful accounts, respectively	703,039	763,878
Other receivables	783,689	1,211,056
	<u>\$ 3,093,347</u>	<u>\$ 4,029,594</u>

Contributions receivable at April 30, are due as follows:

	<u>2020</u>	<u>2019</u>
One year or less	\$ 2,706,827	\$ 2,356,290
One to five years	1,562,648	1,698,213
More than five years	-	100,000
	<u>4,269,475</u>	<u>4,154,503</u>
Less:		
Unamortized discount	(56,753)	(65,477)
Allowance for uncollectible promises to give	(1,639,123)	(2,088,782)
	<u>\$ 2,573,599</u>	<u>\$ 2,000,244</u>

Student loans receivable at April 30, consist of the following:

	<u>2020</u>	<u>2019</u>
Perkins loans	\$ 20,813,921	\$ 23,601,283
Institutional loans	3,651,219	2,092,689
	<u>24,465,140</u>	<u>25,693,972</u>
Less allowance for doubtful accounts	(3,964,507)	(2,745,872)
	<u>\$ 20,500,633</u>	<u>\$ 22,948,100</u>

### Note 3 – Investments and 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:

	2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 7,679,701	\$ 7,679,701	\$ -	\$ -
Bond mutual funds	4,441,889	4,441,889	-	-
Government-backed securities	68,048	16,182	51,866	-
Corporate bonds	66,086	-	66,086	-
Corporate equities	796,334	796,334	-	-
Real estate trusts and other	140,465	140,465	-	-
	<u>\$ 13,192,523</u>	<u>\$ 13,074,571</u>	<u>\$ 117,952</u>	<u>\$ -</u>
	2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 7,788,802	\$ 7,788,802	\$ -	\$ -
Bond mutual funds	4,056,690	4,056,690	-	-
Government-backed securities	102,729	49,263	53,466	-
Corporate bonds	62,321	-	62,321	-
Corporate equities	774,474	774,474	-	-
Real estate trusts and other	140,100	140,100	-	-
	<u>\$ 12,925,116</u>	<u>\$ 12,809,329</u>	<u>\$ 115,787</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 2 in the fair value hierarchy.

Total investment return, net of fees and included in the consolidated statements of activities, consists of the following for the years ended April 30:

	2020	2019
Interest and dividends	\$ 757,388	\$ 794,567
Net realized and unrealized gain (loss) on investments	(787,712)	289,146
	<u>\$ (30,324)</u>	<u>\$ 1,083,713</u>

#### Note 4 – Commercial Real Estate

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

	2020	2019	Estimated Useful Lives
Land	\$ 2,815,144	\$ 2,815,144	-
Buildings and improvements	128,740,122	122,101,219	20-50 years
Equipment	19,229,593	19,146,534	3-10 years
Tenant improvements	9,560,215	9,427,797	various
	<u>160,345,074</u>	<u>153,490,694</u>	
Less accumulated depreciation	(124,982,116)	(121,787,075)	
	35,362,958	31,703,619	
Construction in progress	33,612	2,823,196	
	<u>\$ 35,396,570</u>	<u>\$ 34,526,815</u>	

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

	2020	2019
Tenant rental income	\$ 10,929,723	\$ 11,105,438
Operating expenses:		
Property management	360,000	360,000
Leasing commissions	431,402	473,758
Utilities	1,293,798	1,489,458
Operations and maintenance	5,128,505	4,755,759
	<u>7,213,705</u>	<u>7,078,975</u>
Operating income before depreciation	3,716,018	4,026,463
Depreciation	3,192,432	2,559,457
Net operating income	<u>\$ 523,586</u>	<u>\$ 1,467,006</u>

Minimum future rentals under noncancelable lease agreements as of April 30, 2020, are as follows:

2021	\$ 9,729,301
2022	8,862,021
2023	7,993,983
2024	7,393,372
2025	6,823,193
Thereafter	<u>38,114,899</u>
	<u>\$ 78,916,769</u>

CityPlex operations and real estate are subject to the Joint Venture Agreement discussed further in Note 9.



## Note 5 – Educational Plant

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

	2020	2019	Estimated Useful Lives
Land and improvements	\$ 18,495,820	\$ 17,564,022	20 years
Buildings and improvements	155,801,544	139,263,097	20-50 years
Equipment	53,369,811	52,115,129	3-10 years
Vehicles	1,941,019	1,862,896	5 years
Library books	9,245,631	9,125,124	20 years
	238,853,825	219,930,268	
Less accumulated depreciation and amortization	(153,821,086)	(146,317,140)	
	85,032,739	73,613,128	
Construction in progress	508,860	9,409,076	
	<u>\$ 85,541,599</u>	<u>\$ 83,022,204</u>	

Depreciation expense related to educational plant was \$8,129,314 and \$8,063,143 for the years ended April 30, 2020 and 2019, respectively. Amortization expense on capital lease assets was \$219,930 and \$162,646 for the years ended April 30, 2020 and 2019, respectively.

## Note 6 – Line of Credit

On October 26, 2019, the University entered into an amended agreement to extend the line-of-credit through October 25, 2021. 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 line-of-credit at April 30, 2020 or 2019.

## Note 7 – Liquidity and Availability of Financial Assets

The University's cash flows have seasonal variations during the year primarily attributable to tuition billings and timing of when contributions are received. As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The University must maintain sufficient resources to meet responsibilities to its donors, various agencies and others. Thus, financial assets may not be available for general expenditure within one year.

Cash in excess of daily requirements are invested in short-term investments and certificates of deposit. Occasionally, the Board of Trustees designates a portion of any operating surplus to its liquidity reserve, which was approximately \$4,723,000 and \$3,523,000 as of April 30, 2020 and 2019, respectively. The liquidity reserve is in a fund established by the Board of Trustees that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. To help manage unanticipated liquidity needs, the University also has an available line of credit up to \$15,000,000. In addition to the available financial assets, a significant portion of the University's general annual expenditures will be funded by the current year operating revenues including tuition and auxiliary services.

The University's financial assets available for general expenditures due within one year of the balance sheet date are as follows at April 30:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 29,217,731	\$ 30,569,749
Accounts receivable, net	3,093,347	4,029,594
Contributions receivable, net	2,573,599	2,000,244
Investments	13,192,523	12,925,116
Certificates of deposit	-	2,483,626
Total financial assets at year-end	48,077,200	52,008,329
Less amounts restricted or not available to be used within one year:		
Receivables, net, scheduled to be collected in more than one year	(807,433)	(921,101)
Contractual or donor-imposed restrictions:		
Investments and other financial assets held for others	(2,936,950)	(1,338,242)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(9,903,390)	(9,885,553)
Investments held in trusts and various state-required annuity reserves	(2,971,849)	(3,324,440)
Other donor-restricted financial assets	(17,654,230)	(15,575,989)
Board designated operating reserve	(4,723,061)	(3,523,069)
Financial assets available to meet general expenditures within one year	<u>\$ 9,080,287</u>	<u>\$ 17,439,935</u>

#### Note 8 – Net Assets

Net assets consist of the following at April 30:

	2020	2019
Without donor restrictions:		
Board designated reserve for operations	\$ 4,723,061	\$ 3,523,069
Other net assets without donor restrictions	88,128,833	73,673,835
Total without donor restrictions	92,851,894	77,196,904
With donor restrictions:		
Subject to expenditure for specific purpose:		
Capital investment	4,733,088	20,454,946
Academic programs	3,330,988	3,674,205
Scholarships	2,332,286	2,192,685
Public service	2,556,783	1,695,528
Athletics	234,431	305,265
Other purpose restrictions	5,322,851	6,093,353
Total purpose restricted	18,510,427	34,415,982

Subject to the passage of time:		
Split-interest agreements	1,825,375	2,163,229
Beneficial interests in assets held by others	1,699,548	1,417,993
	<hr/>	<hr/>
Total time restricted	3,524,923	3,581,222
Investment in perpetuity, the income from which is expendable to support:		
College of Business	1,630,867	1,622,423
College of Theology	2,699,211	2,680,260
College of Education	600,205	599,967
College of Arts and Sciences	1,560,262	1,570,262
College of Nursing	21,681,596	21,668,565
General scholarships	11,080,700	10,960,766
General activities of the University	5,807,669	5,918,611
	<hr/>	<hr/>
Total endowment funds restricted in perpetuity	45,060,510	45,020,854
	<hr/>	<hr/>
Total with donor restrictions	67,095,860	83,018,058
	<hr/>	<hr/>
	\$ 159,947,754	\$ 160,214,962
	<hr/>	<hr/>

Net assets restricted by donors for capital investment consist primarily of contributions designated for on-campus construction projects and CityPlex refurbishment.

## Note 9 – Endowment

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 net assets with donor restrictions (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 net assets without donor restrictions
  - ♦ Proceeds in excess of \$65 million, if any, 53.66% to the endowment fund and the remainder to the University's net assets without donor restrictions

The guaranteed return of \$1,743,891 for 2020 and 2019 is reported in the consolidated statements of activities as a transfer from net assets without donor restrictions to net assets with donor restrictions. Net assets released from restrictions in 2020 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, and the endowment trust's interest in the Joint Venture Agreement are summarized in the table below. Included in net assets with donor restrictions on April 30, 2020 and 2019, are as follows:

	<u>With Donor Restrictions</u>	
	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 48,398,740	\$ 46,931,661
Investment return:		
Investment income	249,756	252,554
Net realized and unrealized appreciation (depreciation)	(790,942)	52,763
Total investment return	(541,186)	305,317
Joint venture agreement income	1,743,891	1,743,891
Contributions	238,680	1,292,438
Appropriation of endowment assets for expenditure	(2,215,527)	(1,874,567)
Endowment net assets, end of year	<u>\$ 47,624,598</u>	<u>\$ 48,398,740</u>

The University's spending policy for endowment trust assets consisting of cash and cash equivalents and marketable securities has the objective of providing income for the intended purpose of the funds while preserving the principal of the funds invested in these assets. Asset allocation ranges will reflect a moderately aggressive approach to income and growth and an acceptance of greater variability of return. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. Net investment return of these assets is disbursed annually for expenditure according to the donors' intent or retained to principal when designated by the donor. If the net investment return should be a loss for the fiscal year, no disbursement for expenditure is made until such time as the loss is recovered.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. UPMIFA has been interpreted to permit spending from underwater endowments in accordance with prudent measures required under law. Deficiencies of this nature exist in eight donor-restricted endowment funds, which together have an original gift value of \$16,241,667, a current fair value of \$16,068,526, and a deficiency of \$173,141 as of April 30, 2020. There were no deficiencies of this nature as of April 30, 2019. These deficiencies resulted from unfavorable market conditions that occurred in the latter months of the fiscal year ended April 30, 2020.

## Note 10 – Employee Benefit Plans

Certain employees, except for employees who are eligible to participate in the 401(k) plan sponsored by the University, students and nonresident aliens, are eligible after specified periods of employment to participate in a contributory retirement and annuity program through 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, 2020 and 2019, was approximately \$697,000 and \$687,000, respectively.

Effective January 1, 2015, the University implemented a group medical plan for its comprehensive major medical insurance which is self-insured with per individual stop-loss coverage of \$125,000 in 2020 and 2019. The University paid claims and premiums of approximately \$4,009,000 and \$4,297,000 during the years ended April 30, 2020 and 2019, respectively. At April 30, 2020 and 2019, the University accrued approximately \$1,396,000 and \$841,000, 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 – Natural Classification of Expenses by Functional Category

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, amortization and maintenance of plant, which are allocated on a percentage basis of total expenses.

Expenses by nature and function for the year ended April 30, 2020, consist of the following:

	Compensation and Benefits	Contractual Services	Supplies and Other	Depreciation and Amortization	Total
Instruction	\$ 20,761,759	\$ 2,968,287	\$ 1,336,042	\$ 1,826,396	\$ 26,892,484
Research	7,001	21,701	10,960	4,560	44,222
Public service	792,439	1,011,548	1,024,947	180,691	3,009,625
Academic support	1,921,286	1,076,643	433,202	566,909	3,998,040
Student services	6,987,226	4,068,238	968,634	771,268	12,795,366
Institutional support	9,831,625	6,669,370	3,929,274	2,499,645	22,929,914
CARES Act emergency financial aid	-	-	1,319,700	-	1,319,700
Auxiliary services	6,311,342	8,500,753	3,265,423	2,014,364	20,091,882
Commercial real estate operations	1,386,779	4,575,182	1,251,744	3,192,432	10,406,137
Other expenses	1,189,009	708,610	1,004,420	265,481	3,167,520
Total expenses	<u>\$ 49,188,466</u>	<u>\$ 29,600,332</u>	<u>\$ 14,544,346</u>	<u>\$ 11,321,746</u>	<u>\$ 104,654,890</u>

Expenses by nature and function for the year ended April 30, 2019, consist of the following:

	Compensation and Benefits	Contractual Services	Supplies and Other	Depreciation and Amortization	Total
Instruction	\$ 20,494,299	\$ 2,962,024	\$ 1,145,806	\$ 1,764,540	\$ 26,366,669
Research	50,775	10,696	30,835	9,638	101,944
Public service	670,947	1,093,077	1,407,325	197,037	3,368,386
Academic support	2,111,185	977,638	429,317	719,537	4,237,677
Student services	6,913,234	3,924,106	852,752	755,498	12,445,590
Institutional support	10,585,684	6,671,198	3,552,084	2,339,421	23,148,387
CARES Act emergency financial aid	-	-	-	-	-
Auxiliary services	6,441,483	9,326,822	3,097,529	2,048,155	20,913,989
Commercial real estate operations	1,338,611	4,765,149	975,215	2,559,457	9,638,432
Other expenses	1,155,861	847,782	796,275	229,317	3,029,235
Total expenses	\$ 49,762,079	\$ 30,578,492	\$ 12,287,138	\$ 10,622,600	\$ 103,250,309

#### Note 12 – 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 consolidated financial statements taken as a whole.

The University has various operating leases for vehicles and office equipment and various capital leases for network equipment. The leases have various expiration dates through 2023.

Future minimum lease commitments at April 30, 2020, are as follows:

	Capital Lease Payments	Operating Lease Payments
2021	\$ 235,695	\$ 56,111
2022	61,401	35,114
2023	-	5,852
	297,096	97,077
Less interest on capital leases	(8,931)	-
	\$ 288,165	\$ 97,077

Total lease expense for vehicle and office equipment was approximately \$95,000 and \$112,000 for the years ended April 30, 2020 and 2019, respectively.

The University has outstanding commitments on contracts to construct campus facilities and various refurbishments to CityPlex of approximately \$225,000 at April 30, 2020. The contracts have an estimated completion date of fall 2020.

### Note 13 – Transactions with Related Parties

The University has adopted a Conflict of Interest Policy by which a proposed transaction with a related party is required 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.

### Note 14 – Financial Responsibility Ratio Information

The U.S. Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV. These disclosures are not required by U.S. GAAP but are intended for use by the Department of Education and to ensure compliance with Federal Title IV regulations.

Financial responsibility ratio information as of and for the year ended April 30, 2020, is as follows:

Educational plant, net:

Property, plant and equipment, including construction in progress, net of accumulated depreciation: pre-implementation	\$ 74,892,890
Property, plant and equipment, including construction in progress, net of accumulated depreciation: post-implementation without outstanding debt for original purchase	<u>10,648,709</u>
	<u>\$ 85,541,599</u>
Long-term debt obtained for long-term purposes (obligations under capital leases): pre-implementation	<u>\$ 288,165</u>
Annuities, term endowments and life income with donor restrictions:	
Annuities	\$ 107,113
Term endowments	-
Life income funds (trusts)	<u>1,718,262</u>
	<u>\$ 1,825,375</u>
Revenues, gains and other support without donor restrictions	\$ 120,309,880
Loss on disposal of educational plant	<u>2,568</u>
	<u>\$ 120,312,448</u>

### Note 15 – Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the consolidated financial position, results of operations and cash flows of the University. These uncertainties include market value fluctuations of investments and uncertain levels of student enrollment, rental income and donor contributions. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.