



**CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2018 and 2017**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

## CONTENTS

Independent Auditor's Report.....	1
Consolidated Statements of Financial Position as of April 30, 2018 and 2017 .....	2
Consolidated Statement of Activities for the year ended April 30, 2018.....	3
Consolidated Statement of Activities for the year ended April 30, 2017.....	4
Consolidated Statements of Cash Flows for the years ended April 30, 2018 and 2017 .....	5
Notes to Consolidated Financial Statements.....	6

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Oral Roberts University

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oral Roberts University and affiliate (collectively, the University) which comprise the consolidated statements of financial position as of April 30, 2018 and 2017, 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, 2018 and 2017, 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 5, 2018

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**April 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 22,746,755	\$ 27,159,053
Accounts receivable, net	3,483,093	4,383,003
Contributions receivable, net	6,428,191	906,971
Investments	13,573,765	11,773,164
Certificates of deposit	2,941,924	6,510,007
Prepaid expenses and other assets	3,955,220	2,792,841
Student loans receivable, net	24,918,278	23,944,851
Commercial real estate, net	33,824,738	31,690,719
Educational plant, net	73,558,875	76,862,151
Beneficial interest in assets held by others	1,975,479	2,027,822
	<b>\$ 187,406,318</b>	<b>\$ 188,050,582</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 12,858,344	\$ 13,816,282
Deferred revenue	3,999,833	4,314,366
Obligations under split-interest agreements	1,281,927	1,343,582
Government advances for student loans	20,323,637	20,175,754
	<b>38,463,741</b>	<b>39,649,984</b>
<b>Net assets:</b>		
Unrestricted	77,188,435	79,883,005
Temporarily restricted	28,203,063	25,538,482
Permanently restricted	43,551,079	42,979,111
	<b>148,942,577</b>	<b>148,400,598</b>
<b>Total net assets</b>	<b>148,942,577</b>	<b>148,400,598</b>
<b>Total liabilities and net assets</b>	<b>\$ 187,406,318</b>	<b>\$ 188,050,582</b>

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2018**  
**(with comparative totals for the year ended April 30, 2017)**

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues, gains and other support</b>					
Tuition and fees	\$ 80,948,715	\$ -	\$ -	\$ 80,948,715	\$ 75,020,799
Room, board and other auxiliary services	24,594,648	-	-	24,594,648	23,324,665
Less: scholarships and fellowships	(39,942,984)	-	-	(39,942,984)	(37,584,691)
Net tuition, fees and auxiliary services	65,600,379	-	-	65,600,379	60,760,773
Contributions	1,102,173	19,137,630	305,633	20,545,436	20,611,406
Investment return	353,310	541,369	198,590	1,093,269	1,156,935
Contracts and grants	975,821	252,285	-	1,228,106	1,281,112
Commercial real estate operations	10,602,706	-	-	10,602,706	8,345,494
Other support	5,480,479	42,361	-	5,522,840	7,707,297
Net assets transfers - Joint Venture Agreement (Note 8)	(1,743,891)	1,676,146	67,745	-	-
Net assets released from restrictions	18,985,210	(18,985,210)	-	-	-
Total revenues, gains and other support	101,356,187	2,664,581	571,968	104,592,736	99,863,017
<b>Expenses and losses</b>					
Education and general:					
Instruction	27,044,476	-	-	27,044,476	26,146,406
Research	248,146	-	-	248,146	232,735
Public service	4,072,710	-	-	4,072,710	3,319,351
Academic support	3,950,715	-	-	3,950,715	4,753,522
Student services	12,327,433	-	-	12,327,433	12,578,801
Institutional support	21,237,850	-	-	21,237,850	24,420,914
Room, board and other auxiliary services	20,673,073	-	-	20,673,073	22,913,504
Total education and general expenses	89,554,403	-	-	89,554,403	94,365,233
Commercial real estate operations	11,639,757	-	-	11,639,757	10,148,776
Other expenses	2,856,597	-	-	2,856,597	2,919,917
Total expenses and losses	104,050,757	-	-	104,050,757	107,433,926
Change in net assets	(2,694,570)	2,664,581	571,968	541,979	(7,570,909)
Net assets, beginning of year	79,883,005	25,538,482	42,979,111	148,400,598	155,971,507
Net assets, end of year	\$ 77,188,435	\$ 28,203,063	\$ 43,551,079	\$ 148,942,577	\$ 148,400,598

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended April 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support</b>				
Tuition and fees	\$ 75,020,799	\$ -	\$ -	\$ 75,020,799
Room, board and other auxiliary services	23,324,665	-	-	23,324,665
Less: scholarships and fellowships	(37,584,691)	-	-	(37,584,691)
Net tuition, fees and auxiliary services	60,760,773	-	-	60,760,773
Contributions	4,833,861	14,828,307	949,238	20,611,406
Investment return	171,414	916,828	68,693	1,156,935
Contracts and grants	1,090,754	190,358	-	1,281,112
Commercial real estate operations	8,345,494	-	-	8,345,494
Other support	7,694,070	13,227	-	7,707,297
Net assets transfers - Joint Venture Agreement (Note 8)	(1,743,891)	1,679,635	64,256	-
Net assets released from restrictions	23,083,877	(23,083,877)	-	-
Total revenues, gains and other support	104,236,352	(5,455,522)	1,082,187	99,863,017
<b>Expenses and losses</b>				
Education and general:				
Instruction	26,146,406	-	-	26,146,406
Research	232,735	-	-	232,735
Public service	3,319,351	-	-	3,319,351
Academic support	4,753,522	-	-	4,753,522
Student services	12,578,801	-	-	12,578,801
Institutional support	24,420,914	-	-	24,420,914
Room, board and other auxiliary services	22,913,504	-	-	22,913,504
Total education and general expenses	94,365,233	-	-	94,365,233
Commercial real estate operations	10,148,776	-	-	10,148,776
Other expenses	2,919,917	-	-	2,919,917
Total expenses and losses	107,433,926	-	-	107,433,926
Change in net assets	(3,197,574)	(5,455,522)	1,082,187	(7,570,909)
Net assets, beginning of year	83,080,579	30,994,004	41,896,924	155,971,507
Net assets, end of year	\$ 79,883,005	\$ 25,538,482	\$ 42,979,111	\$ 148,400,598

**ORAL ROBERTS UNIVERSITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended April 30, 2018 and 2017**

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 541,979	\$ (7,570,909)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,869,128	13,843,577
Realized and unrealized gain on investments	(378,489)	(789,892)
Loss on disposal of educational plant	115,833	57,716
Student loans cancelled	208,483	353,416
Provision for bad debts	(720,496)	1,376,424
Donated assets	(451,570)	(34,726)
Contributions restricted for long-term purposes	(3,346,149)	(6,408,077)
Change in:		
Accounts receivable	486,771	(390,594)
Contributions receivable	(4,167,270)	1,609,095
Prepaid expenses and other assets	(989,283)	293,250
Beneficial interest in assets held by others	52,343	1,259,215
Accounts payable and accrued expenses	(957,938)	622,564
Deferred revenue	(314,533)	(124,697)
Government advances for student loans	147,883	(29,996)
Net cash provided by operating activities	2,096,692	4,066,366
<b>Cash Flows from Investing Activities</b>		
Purchases of educational plant	(4,861,425)	(9,379,431)
Purchases of commercial real estate assets	(6,020,702)	(4,531,511)
Purchases of investments	(2,123,522)	(1,681,535)
Proceeds from sale of investments	1,114,390	1,501,486
Proceeds from the sale of certificates of deposit	3,500,000	3,016,000
Student loan collections	2,616,527	2,777,579
Student loans granted	(4,018,752)	(3,660,518)
Net cash used in investing activities	(9,793,484)	(11,957,930)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for long-term purposes	3,346,149	6,408,077
Other	(61,655)	(236,225)
Net cash provided by financing activities	3,284,494	6,171,852
Net change in cash and cash equivalents	(4,412,298)	(1,719,712)
Cash and cash equivalents, beginning of year	27,159,053	28,878,765
Cash and cash equivalents, end of year	\$ 22,746,755	\$ 27,159,053

See notes to consolidated financial statements.

## ORAL ROBERTS UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

#### 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 77 undergraduate majors, as well as 12 masters-level programs and two doctoral degrees. The most popular majors include: Nursing, Psychology, Business Administration, Ministry & Leadership, and Engineering. Faculty members educated at the nation's top graduate schools serve as academic, professional and spiritual mentors to students who come to ORU from every corner of the globe.

The student population consists of approximately 3,800 for-credit students from all 50 states and 101 countries. The alumni population consists of approximately 44,000 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 balances and transactions of UBI are 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. 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:

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

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

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



### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and cash equivalents

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

### Contributions

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

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

### Investments and investment income

Investments in government and agency obligations, debt and marketable equity securities are stated at fair value. Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, change in the value of investment securities could occur in the near term and these changes could materially affect the amounts reported in the accompanying consolidated 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 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 temporarily restricted net assets. Contributions and subsequent changes in fair value are reported within temporarily and permanently restricted net assets. Beneficial interests in trusts 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. Temporarily restricted contribution revenues are recognized at the date the agreements are established for the fair value of assets received less the estimated liabilities for the present value of future payments to be made to the donors or their designee. The liabilities are adjusted during the terms of the agreements for changes in the value of the assets, accretion of the discounts and other changes in estimates of future benefits.

The University also enters into revocable life loan agreements whereby lenders place funds with the University. Interest is paid to lenders at rates of 3% to 6%. Lenders may make withdrawals or convert the principal to an irrevocable contract or an outright gift of the principal to ORU over the life of the agreement. If called, the loans must be repaid, but the University's obligation to repay a loan terminates upon the death of the lender.

The fair value of assets held under split-interest agreements was approximately \$4,978,000 and \$4,958,000 at April 30, 2018 and 2017, respectively, and are included in investments in the accompanying consolidated statements of financial position.

Cash paid for interest, primarily related to split-interest agreements, was approximately \$227,000 and \$232,000 for the years ended April 30, 2018 and 2017, 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 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.

#### 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 \$2,471,000 and \$2,611,000 in years ended April 30, 2018 and 2017, respectively.

#### Federal income taxes

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

#### Concentrations

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

During the years ended April 30, 2018 and 2017, ORU received contributions of approximately \$13,650,000 and \$14,360,000, respectively, from a single donor or entities affiliated with the donor.

#### 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).

### New accounting pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) the ASU replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) the ASU expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) the ASU requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) the ASU requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The University is currently evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

### Subsequent events

Management has evaluated subsequent events through September 5, 2018, the date the consolidated financial statements were available to be issued.

### **Note 2 – Receivables**

Accounts receivable at April 30 consist of the following:

	2018	2017
Student tuition and fees, net of \$2,717,936 and \$2,501,235 allowance for doubtful accounts, respectively	\$ 1,406,818	\$ 1,095,076
Contracts and grants receivable	12,822	130,118
Rental property receivables, net of \$248,740 and \$19,505 allowance for doubtful accounts, respectively	504,729	1,588,520
Other receivables	1,558,724	1,569,289
	<u>\$ 3,483,093</u>	<u>\$ 4,383,003</u>

Contributions receivable at April 30 are due as follows:

	2018	2017
One year or less	\$ 8,084,678	\$ 3,460,289
One to five years	690,252	1,034,081
More than five years	188,756	282,023
	<u>8,963,686</u>	<u>4,776,393</u>
Allowance for uncollectible accounts	<u>(2,535,495)</u>	<u>(3,869,422)</u>
	<u>\$ 6,428,191</u>	<u>\$ 906,971</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:

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 8,300,797	\$ 8,300,797	\$ -	\$ -
Bond mutual funds	3,985,555	3,985,555	-	-
Government-backed securities	107,297	50,893	56,404	-
Corporate bonds	60,843	-	60,843	-
Corporate equities	695,663	695,663	-	-
Real estate trusts and other	423,610	283,609	140,001	-
	<u>\$ 13,573,765</u>	<u>\$ 13,316,517</u>	<u>\$ 257,248</u>	<u>\$ -</u>
	2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 7,354,521	\$ 7,354,521	\$ -	\$ -
Bond mutual funds	3,365,172	3,365,172	-	-
Government-backed securities	122,210	62,551	59,659	-
Corporate bonds	62,203	-	62,203	-
Corporate equities	440,003	440,003	-	-
Real estate trusts and other	429,055	289,054	140,001	-
	<u>\$ 11,773,164</u>	<u>\$ 11,511,301</u>	<u>\$ 261,863</u>	<u>\$ -</u>

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

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

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

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

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

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

	2018	2017
Interest and dividends	\$ 714,780	\$ 367,043
Realized and unrealized gain on investments	378,489	789,892
	<u>\$ 1,093,269</u>	<u>\$ 1,156,935</u>

#### Note 4 – Commercial Real Estate

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

	2018	2017	Estimated Useful Lives
Land	\$ 2,815,144	\$ 2,815,144	-
Buildings and improvements	121,851,764	120,027,991	20-50 years
Equipment	19,126,129	19,126,129	3-10 years
Tenant improvements	9,160,815	4,521,326	Various
	<u>152,953,852</u>	<u>146,490,590</u>	
Less accumulated depreciation	(119,226,337)	(116,309,399)	
	33,727,515	30,181,191	
Construction in progress	97,223	1,509,528	
	<u>\$ 33,824,738</u>	<u>\$ 31,690,719</u>	

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

	2018	2017
Tenant rental income	\$ 10,602,706	\$ 8,345,494
Operating expenses:		
Property management	360,000	360,000
Leasing commissions	367,496	191,034
Utilities	1,359,535	1,340,282
Operations and maintenance	5,666,043	3,748,383
	<u>7,753,074</u>	<u>5,639,699</u>
Operating income before depreciation	2,849,632	2,705,795
Depreciation	3,886,683	4,509,077
Net operating loss	<u>\$ (1,037,051)</u>	<u>\$ (1,803,282)</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 noncancelable lease agreements as of April 30, 2018, are as follows:

2019	\$ 9,667,254
2020	8,101,838
2021	7,709,249
2022	4,418,333
2023	2,778,085
Thereafter	<u>23,475,209</u>
	<u>\$ 56,149,968</u>

## Note 5 – Educational Plant

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

	2018	2017	Estimated Useful Lives
Land and improvements	\$ 13,352,587	\$ 13,288,745	20 years
Buildings and improvements	138,479,219	134,515,592	20-50 years
Equipment	49,632,105	48,194,413	3-10 years
Vehicles	1,850,676	1,820,975	5 years
Library books	8,985,153	8,825,756	20 years
	<u>212,299,740</u>	<u>206,645,481</u>	
Less accumulated depreciation	(138,977,627)	(131,462,542)	
	<u>73,322,113</u>	<u>75,182,939</u>	
Construction in progress	236,762	1,679,212	
	<u>\$ 73,558,875</u>	<u>\$ 76,862,151</u>	

Depreciation expense related to educational plant was approximately \$7,982,000 and \$9,335,000 for the years ended April 30, 2018 and 2017, respectively.

The University has various operating leases for vehicles and office equipment. Total rent expense for all vehicle and office equipment leases was approximately \$135,000 and \$142,000 for the years ended April 30, 2018 and 2017, respectively. The future minimum lease payments under noncancelable operating leases are as follows as of April 30, 2018:

2019	\$ 80,852
2020	<u>68,945</u>
	<u>\$ 149,797</u>

## Note 6 – Line of Credit

On October 26, 2017, the University entered into an amended agreement to extend the line-of-credit through October 26, 2019. 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, 2018 or 2017.

## Note 7 – Temporarily Restricted Net Assets

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

	2018	2017
Academic programs	\$ 4,479,364	\$ 4,947,528
Split-interest agreements	3,688,678	3,618,931
Capital investment	7,716,042	3,523,123
Scholarships	2,021,518	3,308,852
Public service	1,933,525	2,674,783
Beneficial interests in assets held by others	1,975,479	2,027,822
Athletics	499,122	616,507
Other purpose restrictions	5,889,335	4,820,936
Total temporarily restricted net assets	<u>\$ 28,203,063</u>	<u>\$ 25,538,482</u>

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

## Note 8 – Endowment

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

	2018	2017
College of Business	\$ 522,463	\$ 482,107
College of Theology	2,678,908	2,677,411
College of Education	599,291	598,465
College of Arts and Sciences	1,544,068	1,511,193
College of Nursing	21,666,089	21,663,062
General scholarships	10,764,703	10,734,612
General activities of the University	5,775,557	5,312,261
Total permanently restricted net assets	<u>\$ 43,551,079</u>	<u>\$ 42,979,111</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, 2018 and 2017, CityPlex's income before depreciation and amortization was approximately \$2,850,000 and \$2,706,000, respectively. The guaranteed 5% return of \$1,743,891 for 2018 and 2017, 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 2018 include appropriation by the board of trustees of all endowment earnings which were used for the restricted purposes as scheduled above.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investments, April 30, 2016	\$ 52,611	\$ 2,518,571	\$ 7,019,098	\$ 9,590,280
Investment return:				
Investment income	422	96,632	11,203	108,257
Net realized and unrealized appreciation	2,166	495,874	57,490	555,530
Total investment return	2,588	592,506	68,693	663,787
Joint venture agreement income	369,825	1,309,810	64,256	1,743,891
Contributions	-	-	949,238	949,238
Appropriation of endowment assets for expenditure	(368,907)	(1,249,375)	-	(1,618,282)
Investments, April 30, 2017	56,117	3,171,512	8,101,285	11,328,914
Investment return:				
Investment income	1,304	167,592	100,726	269,622
Net realized and unrealized appreciation	1,267	162,832	97,864	261,963
Total investment return	2,571	330,424	198,590	531,585
Joint venture agreement income	367,339	1,308,807	67,745	1,743,891
Contributions	-	-	305,633	305,633
Appropriation of endowment assets for expenditure	(367,840)	(1,488,347)	-	(1,856,187)
Investments, April 30, 2018	\$ 58,187	\$ 3,322,396	\$ 8,673,253	\$ 12,053,836

#### Note 9 – Employee Benefit Plans

Certain employees or University 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, 2018 and 2017, was approximately \$693,000 and \$683,000, 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 2018 and 2017. The University paid claims and premiums of approximately \$4,764,000 and \$3,949,000 during the years ended April 30, 2018 and 2017, respectively. At April 30, 2018 and 2017, the University accrued approximately \$829,000 and \$793,000, 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 10 – 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 entered into contracts with construction managers for the construction of various commercial real estate and educational plant facilities. As of April 30, 2018, the approximate commitment for these projects is \$16,600,000.

**Note 11 – 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.