



ORAL ROBERTS UNIVERSITY

FINANCIAL STATEMENTS

APRIL 30, 2011 and 2010

WITH

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Oral Roberts University

We have audited the accompanying consolidated statements of financial position of Oral Roberts University (the University) as of April 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oral Roberts University at April 30, 2011 and 2010, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

HoganTaylor LLP

September 15, 2011

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

April 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 27,923,364	\$ 23,939,825
Accounts receivable, net	2,904,943	2,637,254
Contributions receivable	6,003,196	47,908
Prepaid expenses and other assets	3,368,179	3,277,434
Student loans receivable, net	24,791,835	25,420,620
Investments	6,899,082	5,772,982
Commercial real estate, net	35,335,012	37,235,564
Educational plant, net	73,398,074	73,819,550
Beneficial interest in assets held by others	3,478,632	2,852,533
	\$ 184,102,317	\$ 175,003,670
Liabilities and Net Assets		
Notes payable	\$ 3,165,155	\$ 695,108
Accounts payable and accrued expenses	10,855,111	10,356,160
Deferred revenue	3,615,553	4,281,449
Obligations under split-interest agreements	2,221,248	2,276,120
Government advances for student loans	20,488,042	20,181,292
	40,345,109	37,790,129
Net assets:		
Unrestricted	76,555,966	82,635,493
Temporarily restricted	27,430,766	15,119,667
Permanently restricted	39,770,476	39,458,381
	143,757,208	137,213,541
Total net assets	143,757,208	137,213,541
Total liabilities and net assets	\$ 184,102,317	\$ 175,003,670

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Tuition and fees	\$ 56,525,486	\$ -	\$ -	\$ 56,525,486
Room, board and other auxiliary services	20,150,861	-	-	20,150,861
Less: scholarships and fellowships	(22,002,887)	-	-	(22,002,887)
Net tuition, fees and auxiliary services	54,673,460	-	-	54,673,460
Contributions	581,104	27,259,873	231,148	28,072,125
Investment return	-	462,378	22,140	484,518
Contracts and grants	683,622	1,113,041	-	1,796,663
Commercial real estate operations	9,313,541	-	-	9,313,541
Other support	3,261,595	141,137	-	3,402,732
Net assets transfers – Joint venture Agreement (Note 8)	(1,743,891)	1,685,084	58,807	-
Net assets released from restrictions	18,350,414	(18,350,414)	-	-
Total revenues, gains and other support	85,119,845	12,311,099	312,095	97,743,039
Expenses and losses				
Education and general:				
Instruction	21,918,804	-	-	21,918,804
Research	251,594	-	-	251,594
Public service	2,209,132	-	-	2,209,132
Academic support	2,906,867	-	-	2,906,867
Student services	7,531,698	-	-	7,531,698
Institutional support	21,415,414	-	-	21,415,414
Room, board and other auxiliary services	21,160,738	-	-	21,160,738
Total education and general expenses	77,394,247	-	-	77,394,247
Commercial real estate operations	11,160,508	-	-	11,160,508
Interest on indebtedness	443,961	-	-	443,961
Other expenses	2,200,656	-	-	2,200,656
Total expenses and losses	91,199,372	-	-	91,199,372
Increase (decrease) in net assets	(6,079,527)	12,311,099	312,095	6,543,667
Net assets, beginning of year	82,635,493	15,119,667	39,458,381	137,213,541
Net assets, end of year	\$ 76,555,966	\$ 27,430,766	\$ 39,770,476	\$ 143,757,208

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Tuition and fees	\$ 54,097,836	\$ -	\$ -	\$ 54,097,836
Room, board and other auxiliary services	18,682,318	-	-	18,682,318
Less: scholarships and fellowships	(22,196,847)	-	-	(22,196,847)
Net tuition, fees and auxiliary services	50,583,307	-	-	50,583,307
Contributions	1,366,905	41,353,220	198,670	42,918,795
Investment return	-	653,587	15,671	669,258
Contracts and grants	1,967,901	578,628	-	2,546,529
Commercial real estate operations	9,519,494	-	-	9,519,494
Other support	3,931,162	363,081	-	4,294,243
Net assets transfers – Joint venture Agreement (Note 8)	(1,743,892)	1,688,636	55,256	-
Net assets released from restrictions	51,440,906	(51,440,906)	-	-
Total revenues, gains and other support	117,065,783	(6,803,754)	269,597	110,531,626
Expenses and losses				
Education and general:				
Instruction	21,224,185	-	-	21,224,185
Research	294,281	-	-	294,281
Public service	1,356,594	-	-	1,356,594
Academic support	3,077,702	-	-	3,077,702
Student services	7,990,953	-	-	7,990,953
Institutional support	24,447,850	-	-	24,447,850
Room, board and other auxiliary services	20,156,488	-	-	20,156,488
Total education and general expenses	78,548,053	-	-	78,548,053
Commercial real estate operations	11,104,816	-	-	11,104,816
Interest on indebtedness	663,611	-	-	663,611
Other expenses	2,576,603	-	-	2,576,603
Total expenses and losses	92,893,083	-	-	92,893,083
Increase (decrease) in net assets	24,172,700	(6,803,754)	269,597	17,638,543
Net assets, beginning of year	58,462,793	21,923,421	39,188,784	119,574,998
Net assets, end of year	\$ 82,635,493	\$ 15,119,667	\$ 39,458,381	\$ 137,213,541

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Increase in net assets	\$ 6,543,667	\$ 17,638,543
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	11,995,694	11,174,213
Realized and unrealized gain on investments	(292,797)	(420,760)
Loss on disposal of land and educational plant	637,458	144,201
Student loans cancelled	490,313	397,297
Provision for bad debts	350,451	292,885
Donated assets	(50,601)	(15,241)
Contributions restricted for long-term purposes	(12,000,000)	(26,500,000)
(Increase) decrease in:		
Accounts receivable	(653,235)	(579,029)
Contributions receivable	(5,955,743)	3,096,678
Prepaid expenses and other assets	(78,755)	(33,243)
Beneficial interest in assets held by others	(626,099)	420,298
Increase (decrease) in:		
Accounts payable and accrued liabilities	498,951	(794,504)
Deferred revenue	(658,244)	(455,124)
Refundable federal student loans	306,750	(245,900)
Net cash provided by operating activities	507,810	4,120,314
Cash Flows from Investing Activities		
Purchases of educational plant	(9,753,377)	(11,882,926)
Proceeds from sale of educational plant	1,576,966	15,400
Purchases of commercial real estate assets	(1,624,884)	(4,590,047)
Purchases of investments	(4,417,366)	(2,105,315)
Proceeds from sale of investments	3,612,845	1,808,450
Payments received on notes receivable	-	2,725,156
Student loan collections	2,532,851	2,092,320
Student loans granted	(2,358,830)	(2,122,801)
Net cash used in investing activities	(10,431,795)	(14,059,763)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term purposes	12,000,000	26,500,000
Payments on notes payable and capital leases	(12,010,549)	(40,605,455)
Proceeds from notes payable	13,980,596	33,988,987
Other	(62,523)	8,191
Net cash provided by financing activities	13,907,524	19,891,723
Net increase in cash and cash equivalents	3,983,539	9,952,274
Cash and cash equivalents, beginning of year	23,939,825	13,987,551
Cash and cash equivalents, end of year	\$ 27,923,364	\$ 23,939,825

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2011 and 2010

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

Organization

Oral Roberts University (ORU) was founded to educate the whole person – mind, body and spirit. ORU promises a world-class academic experience in the context of a vibrant Christ-centered community.

ORU is a comprehensive university dedicated to strong student outcomes and offers 64 undergraduate majors, many with national accreditation, as well as 13 master's-level programs and two doctoral degrees. The most popular majors include: business administration, media, pastoral Christian ministries, nursing, psychology and biology. Faculty members educated at the nation's top graduate schools serve as academic, professional and spiritual mentors to students who come to ORU from every corner of the globe.

The student population consists of 3,212 for-credit students from 49 states and 51 countries. The alumni population consists of approximately 38,000 individuals. The ORU Golden Eagles Athletics Department is also proud to be a participant in 16 NCAA Division I men's and women's varsity sports.

The accompanying consolidated financial statements include the accounts of certain entities under the financial control of Oral Roberts University. Significant balances and transactions among these entities are eliminated in consolidation. Oral Roberts University and the entities included herein are collectively referred to as ORU or the University.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements reflect the activities of the University as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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

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

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

Tuition and fees revenue and student financial aid

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Scholarships and fellowships awarded on the basis of merit or need are reported as a reduction of tuition and fee revenue. Tuition discounts granted to employees and their dependents are recorded as compensation expense in the appropriate functional expense classification.

The U.S. Government awards the University funds for student financial aid under three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Work Study (FWS). Pell and SEOG provide eligible students a foundation of financial aid to assist with defraying the costs of post-secondary education. The FWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students.

Auxiliary enterprises

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, intercollegiate athletics, and college stores. Auxiliary enterprise revenues and related expenses are reported as changes in unrestricted net assets.

Contributions

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

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

Cash and cash equivalents

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

Cash paid for interest was \$516,199 and \$698,260 for the years ended April 30, 2011 and 2010, respectively.

Investments and investment income

Investments in government and agency obligations, debt and marketable equity securities are stated at fair value. Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, change in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements.

Investment return consists of interest and dividend income and realized and unrealized gains and losses on investments, net of fees. Investment return on endowment investments, after all donor-required

additions to the endowment corpus, are reported as temporarily restricted until appropriated for use by the University. Any difference between the total return recognized and the amount appropriated under the University's spending rate policy is reported as temporarily restricted net assets.

Split-interest agreements

The University has received various charitable gift annuities and irrevocable charitable remainder trusts under which donors have retained rights to periodic distributions. Assets received under these agreements are recorded at fair value in the appropriate net asset category and are included with investments. These investments consist primarily of pooled income funds. Temporarily restricted contribution revenues are recognized at the date the agreements are established for the fair value of assets received less the estimated liabilities for the present value of future payments to be made to the donors or their designee. The liabilities are adjusted during the terms of the agreements for changes in the value of the assets, accretion of the discounts and other changes in estimates of future benefits.

ORU also enters into revocable life loan agreements whereby lenders place funds with the University. Interest is paid to lenders at rates of 3.5% to 6.5%. Lenders may make additional loans or withdrawals over the life of the agreement. If called, the loans must be repaid, but ORU's obligation to repay a loan terminates upon the death of the lender.

The fair value of assets held under split-interest agreements was approximately \$6,866,000 and \$6,879,000 at April 30, 2011 and 2010, respectively.

Educational plant

Purchased property, plant and equipment are recorded at cost, including, where appropriate, capitalized interest. Donated assets are recorded at fair value at the date of the donation. Repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. Property, plant and equipment are removed from the accounting records at the time of disposal.

Commercial real estate

Commercial real estate is comprised of a three-tower, 2.2 million square foot office complex known as CityPlex Towers (CityPlex). Rental revenue is recorded on a straight-line basis over the terms of the leases. The investment in building, tenant improvements and related assets are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives and is reported in expenses of commercial real estate operations.

Beneficial interests in assets held by others

The ORU Alumni Foundation, Inc. and ORU Golden Eagle Club, Inc. receive contributions and hold assets for which the University is designated the beneficiary by the donor. The net assets of these affiliated entities, determined on a fair value basis, are reported as temporarily restricted net assets.

Concentrations

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

During the years ended April 30, 2011 and 2010, ORU received contributions of approximately \$16,000,000 and \$38,000,000, respectively, from a single donor or entities affiliated with the donor.

Student financial aid

The University conducts certain programs pursuant to grants and contracts funded, and subject to audit, by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these government agencies.

The University participates in the Federal Family Education Loan Program (the Program), which includes the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students. Program loans are made by various lenders to students attending the University. Such transactions are not recorded in the financial statements of the University. The University performs certain administrative functions under the Program, which if not performed timely, could result in a liability to the University.

Estimates

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

Federal income taxes

ORU is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business taxable income as defined by the Internal Revenue Code. Such taxable income has not been significant.

Continued compliance with applicable tax regulations affords ORU the opportunity to maintain its tax-exempt status. However, events or interpretations of such regulations could result in contingent tax obligations. Management evaluated ORU's uncertain tax positions and concluded that ORU had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements. Generally, ORU is no longer subject to examinations by the U.S. federal, state or local tax authorities for tax years before 2007.

Fair value measurements

The 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).

In 2011, the University adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures About Fair Value Measurements*, which amends Topic 820 – *Fair Value Measurements and Disclosures* of the Accounting Standards Codification. ASU 2010-06 adds new requirements for disclosures about transfers in and out of Levels 1 and 2 and requires separate disclosure about purchases, sales, issuances, and settlements relating to Level 3 measurements. ASU 2010-06 also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. There were no transfers into or out of Level 1, 2 or 3 measurements for the year ended April 30, 2011.

Reclassifications

Certain 2010 amounts have been reclassified to conform with 2011 presentations. These reclassifications had no impact on change in net assets.

Subsequent events

Management has evaluated subsequent events through September 15, 2011, the date the financial statements were available to be issued.

Note 2 – Receivables

Accounts receivable at April 30 consist of the following:

	2011	2010
Student tuition and fees, net of \$1,693,532 and \$1,643,076 allowance for doubtful accounts, respectively	\$ 616,235	\$ 445,402
Contracts and grants receivable	246,271	181,729
Rental property receivables, net of \$145,458 and \$80,000 allowance for doubtful accounts, respectively	844,774	882,818
Other receivables	1,197,663	1,127,305
	<u>\$ 2,904,943</u>	<u>\$ 2,637,254</u>

Contributions receivable at April 30 are due as follows:

	2011	2010
One year or less	\$ 6,193,180	\$ 150,829
One to five years	100,876	199,275
	6,294,056	350,104
Allowance for uncollectible accounts	(290,860)	(302,196)
	<u>\$ 6,003,196</u>	<u>\$ 47,908</u>

Note 3 – Investments

Investments at April 30 consist of the following:

	2011	2010
Equity mutual funds	\$ 2,316,273	\$ 496,145
Bond mutual funds	1,484,322	2,024,966
Government backed securities	1,926,485	1,859,736
Corporate bonds	1,045,612	1,328,506
Corporate equity	126,390	63,629
Total	<u>\$ 6,899,082</u>	<u>\$ 5,772,982</u>

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

	2011	2010
Interest and dividends	\$ 213,633	\$ 248,498
Realized and unrealized gain on investments	270,885	420,760
Total	<u>\$ 484,518</u>	<u>\$ 669,258</u>

Note 4 – Fair Value Disclosures

The following tables present the University's investments that are measured at fair value on a recurring basis for each hierarchy level as of April 30:

	2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds:				
Large Cap funds	\$ 1,128,226	\$ 1,128,226	\$ -	\$ -
Mid Cap funds	687,549	687,549	-	-
International funds	433,484	433,484	-	-
Other	67,014	67,014	-	-
Bond mutual funds	1,484,322	1,484,322	-	-
Government and agency securities	1,926,485	1,766,452	160,033	-
Corporate bonds	1,045,612	-	1,045,612	-
Corporate equity	126,390	126,390	-	-
Total	<u>\$ 6,899,082</u>	<u>\$ 5,693,437</u>	<u>\$ 1,205,645</u>	<u>\$ -</u>

	2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	\$ 496,145	\$ 496,145	\$ -	\$ -
Bond mutual funds	2,024,966	1,980,417	44,549	-
Government backed securities	1,859,736	1,615,673	244,063	-
Corporate bonds	1,328,506	-	1,328,506	-
Corporate equity	63,629	63,629	-	-
Total	<u>\$ 5,772,982</u>	<u>\$ 4,155,864</u>	<u>\$ 1,617,118</u>	<u>\$ -</u>

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

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

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

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

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

Note 5 – Educational Plant

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

	2011	2010	Estimated Useful Lives
Land and land improvements	\$ 11,160,663	\$ 11,202,958	20 years
Buildings and improvements	102,966,018	100,566,282	20-50 years
Equipment	33,668,535	48,936,956	3-10 years
Vehicles	1,546,488	1,379,527	5 years
Library books	8,186,261	8,107,106	20 years
	<u>157,527,965</u>	<u>170,192,829</u>	
Less accumulated depreciation	(84,833,356)	(96,710,989)	
	72,694,609	73,481,840	
Construction in progress	<u>703,465</u>	<u>337,710</u>	
	<u>\$ 73,398,074</u>	<u>\$ 73,819,550</u>	

In 2011, the University designated for demolition an unoccupied building with a carrying value of approximately \$700,000. Accordingly, the University has recorded an impairment loss of approximately \$978,000 in the accompanying statement of activities. Included in the impairment loss is an accrual of estimated environmental remediation costs to be incurred of approximately \$265,000.

Depreciation expense related to educational plant was \$8,470,261 and \$7,579,866 for the years ended April 30, 2011 and 2010, respectively.

Note 6 – Commercial Real Estate

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

	2011	2010
Land	\$ 2,815,144	\$ 2,815,144
Buildings and improvements	93,336,944	89,028,958
Equipment	28,143,739	28,128,994
Tenant improvements	2,546,814	2,296,758
	<u>126,842,641</u>	<u>122,269,854</u>
Less accumulated depreciation	(92,635,940)	(89,116,679)
	<u>34,206,701</u>	<u>33,153,175</u>
Construction in progress	1,128,311	4,082,389
	<u>\$ 35,335,012</u>	<u>\$ 37,235,564</u>

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

	2011	2010
Tenant rental income	\$ 9,313,541	\$ 9,519,494
Operating expenses:		
Property management	407,786	421,728
Leasing commissions	306,058	271,742
Utilities	2,676,430	2,720,045
Operations and maintenance	4,172,561	4,020,404
Interest on indebtedness	72,240	76,551
	<u>7,635,075</u>	<u>7,510,470</u>
Operating income before depreciation	1,678,466	2,009,024
Depreciation	3,525,433	3,594,347
Net operating loss	<u>\$ (1,846,967)</u>	<u>\$ (1,585,323)</u>

The building is depreciated over 40 years. Tenant improvements are amortized over the term of the related lease. Leasing commissions paid to third parties are capitalized and amortized over the term of the related lease.

Minimum future rentals under noncancellable lease agreements as of April 30, 2011, are as follows:

2012	\$ 7,384,970
2013	5,614,002
2014	4,927,304
2015	4,619,990
2016	4,098,634
Thereafter	<u>4,724,570</u>
Total	<u>\$ 31,369,470</u>

Note 7 – Notes Payable

Notes payable at April 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Line-of-credit with interest at a minimum of 4.00% or 1.00% over the prime rate set by BOK Financial Corporation (5.00% at April 30, 2011); interest only due monthly; collateralized by certain real estate, stock and guarantees; due June 29, 2011.	\$ 2,632,297	\$ 649,897
Other	<u>532,858</u>	<u>45,211</u>
	<u>\$ 3,165,155</u>	<u>\$ 695,108</u>

Annual maturities of notes payable are as follows:

2012	\$ 2,823,806
2013	175,407
2014	<u>165,942</u>
	<u>\$ 3,165,155</u>

On June 29, 2011, the University entered into an amended agreement to extend the line-of-credit through October 29, 2011. The amended agreement includes an interest rate equal to LIBOR plus 2.25% and increases the maximum borrowings from \$7,500,000 to \$9,500,000.

Note 8 – Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Split-interest agreements	\$ 4,732,717	\$ 4,793,448
Scholarships	4,350,950	2,223,345
Capital investment	10,684,249	1,218,093
Beneficial interests in assets held by others	3,478,632	2,852,533
Other purpose restrictions	<u>4,184,218</u>	<u>4,032,248</u>
Total temporarily restricted net assets	<u>\$ 27,430,766</u>	<u>\$ 15,119,667</u>

In years prior to 2008, proceeds of temporarily restricted contributions were borrowed and used for unrestricted purposes. The balance of inter-fund borrowings owed to temporarily restricted funds at April 30, 2010 of \$7,900,000 was settled in full as of June 30, 2011.

Net assets temporarily restricted for capital investment consist primarily of contributions designated for construction of the Armand Hammer Alumni-Student Center.

Note 9 – Endowment

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

	2011	2010
School of Business	\$ 267,061	\$ 227,311
School of Theology	2,316,075	2,298,764
School of Education	568,046	564,978
School of Arts and Sciences	1,234,271	1,144,343
School of Nursing	21,493,749	21,512,223
General scholarships	9,924,996	9,862,011
General activities of the University	3,966,278	3,848,751
Total permanently restricted net assets	<u>\$ 39,770,476</u>	<u>\$ 39,458,381</u>

The University's endowment trust consists of approximately 240 individual funds established for a variety of purposes. The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the state of Oklahoma, as requiring the preservation of the fair value of the original gifts as of the gift dates of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

The endowment trust was established in 1973. After a period of inactivity, it was reactivated in 1988 by creation of the Anna Vaughn Benz Trust Fund for the School of Nursing. During the 1990s, the University experienced periods of financial need which were met, in part, by borrowings from the endowment trust.

In recognition of the University's obligations for borrowing from the endowment trust, effective May 1, 2008, and amended on April 28, 2010, the endowment trust and the University entered into an agreement (the Joint Venture Agreement) whereby, among other things, they made the following agreements:

- CityPlex ownership and operations will remain vested in and the responsibility of the University
- The endowment fund's interest in certain promissory notes receivable from the University were contributed to the joint venture
- All annual operating income of CityPlex (as defined) is split between the University and the Endowment Trust. According to the agreement, the University guarantees the endowment fund will receive the greater of \$1,743,891, or 53.66% of the annual operating income of CityPlex
- In the event of a sale of CityPlex, proceeds will be allocated as follows:
 - ♦ First \$34,877,825 of net proceeds to the endowment fund
 - ♦ Proceeds in excess of \$34,877,825, to \$65 million, first to temporarily restricted fund accounts from which the University had borrowed funds, if any, then to the University's unrestricted fund
 - ♦ Proceeds in excess of \$65 million, if any, 53.66% to endowment fund and the remainder to the University's unrestricted fund

For the years ended April 30, 2011 and 2010, CityPlex's income before depreciation and amortization was \$1,678,466 and \$2,009,025, respectively. The guaranteed 5% return of \$1,743,891 for 2011 and 2010 is reported in the statement of activities as a transfer from unrestricted net assets to temporarily restricted net assets. Net assets released from restrictions in 2011 include appropriation by the board of trustees of all endowment earnings which were used for the restricted purposes as scheduled above.

Endowment trust assets consist primarily of cash and cash equivalents of approximately \$5,405,000 and \$5,055,000, at April 30, 2011 and 2010, respectively, with the remainder in the Joint Venture Agreement discussed above.

Note 10 – Retirement Plans

Full-time faculty and staff are eligible after specified periods of employment to participate in a contributory retirement and annuity program through the Teachers Insurance and Annuity Association and the College Retirement Equities Funds (TIAA/CREF). The University has no liability for the funds other than current contributions, which equal the employees' contribution as detailed in the Plan.

Note 11 – Commitments and Contingencies

ORU is involved in various litigation arising in the ordinary course of business. After reviewing these actions with counsel, management does not believe that any resulting liability will be material to the financial statements taken as a whole.

Note 12 – Transactions with Related Parties

The University has adopted a Conflict of Interest Policy by which a proposed transaction with a related party is to be reviewed by the Audit Committee of the Board of Trustees to confirm that a more advantageous transaction is not reasonably possible; the transaction is in the University's best interest; for the University's benefit; and fair and reasonable. During fiscal year 2010, subsequent to approval by the Audit Committee in accordance with the above standards, the University contracted for construction services in the amount of \$1,377,550 with an entity in which a member of the Board of Trustees has an interest. The University entered into a limited number of transactions with members of the Board which are individually and in the aggregate immaterial to the financial statements.