



OKLAHOMA BAPTIST UNIVERSITY

Management Discussion & Analysis and  
Consolidated Financial Statements  
With Independent Auditors' Report

May 31, 2021 and 2020

# OKLAHOMA BAPTIST UNIVERSITY

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**SECTION I**

**Management Discussion & Analysis**

**OKLAHOMA BAPTIST UNIVERSITY**

May 31, 2021

## MANAGEMENT DISCUSSION & ANALYSIS

Oklahoma Baptist University (the University) continues to transform lives by equipping students to pursue academic excellence, integrate faith with all areas of knowledge, engage a diverse world and live worthy of the high calling of God in Christ. This fiscal year, the University experienced many changes but continues to see exciting things happening in the lives of our students.

For the fall 2020 semester, Bison Hill welcomed over five hundred new students, freshmen, and transfers to campus to begin their journey toward earning a college degree from the University. Total headcount was just shy of 1,800 students. The University remains committed to academic excellence and helping OBU students succeed in whatever path they choose.

During 2020, the impacts of the COVID-19 pandemic continued to be felt across campus. Safety protocols, including social distancing and wearing of face coverings, were implemented across campus in accordance with CDC guidelines. In the fall 2020 semester, on-campus university housing was re-opened to all students. Academic offerings were conducted utilizing a hybrid model of in-person and virtual learning, with 87% of classes being offered in-person. As part of the CARES Act, the University received \$967K in federal aid to help assist students with economic hardships caused by the pandemic. The entirety of the aid was distributed to students in the spring of 2021.

The University continues to face budget challenges as do most other higher education institutions across the United States. Therefore, the University continues to adjust its operating budget to adapt to the current economic climate. Despite these budget challenges, the University continues to have a strong balance sheet. The University has minimal debt as well as a strong endowment. Aided by the recovery in investment markets, the University's endowment as of May 31, 2021, exceeded \$162 million. The University's endowment continues to generate a steady stream of income that supports student scholarships as well as supplements operating income for the University. The attached consolidated financial statements reflect the financial position of the University as of May 31, 2021 and 2020, as well as the results of operations and cash flows for the years ended May 31, 2021 and 2020.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Cash and investments provide essential liquidity to cover operating costs as well as fund construction and maintenance costs. The University maintains an investment portfolio that seeks to preserve capital, provide needed liquidity, and maximize investment return within appropriate risk constraints. Cash and investments totaled almost \$37.6 million as of May 31, 2021, an increase of \$10.1 million. The University's endowment assets along with beneficial interests held by outside investment managers increased \$28.4 million to \$153.9 million primarily due to unrealized gains as of May 31, 2021. The vast majority of these assets are under management at WatersEdge.

The University's net investment in educational plant decreased \$3 million to approximately \$102.1 million compared to \$105.1 million as of the end of the previous fiscal year. The decrease was primarily due to the annual depreciation expense of \$4 million but was partially offset by renovations to building and equipment purchases totaling \$1.1 million.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, continued

The University's long-term debt results from an agreement with the Oklahoma Baptist University Authority (see footnote 10). As part of this agreement, the Authority issues long-term debt to fund construction of campus facilities, and the University promises to fund the debt service payments. During 2020-2021, the University made principal payments of over \$2 million. No new debt was issued.

## CONSOLIDATED STATEMENTS OF ACTIVITIES

As a private university, student generated revenue is the University's primary revenue source year over year. Student generated revenue includes net tuition and fees as well as auxiliary revenue. For fiscal years ending May 31, 2021 & 2020, the University reported student generated revenue of approximately \$30.7 million.

During the fiscal year ended May 31, 2021, the University continued to receive generous support from its strong base of alumni and friends as well as Oklahoma Southern Baptists. For the 2020-2021 fiscal year, the University received \$2.4 million from the Oklahoma Baptists' Cooperative Program. Additionally, the University received approximately \$4.4 million in support for specific programs and activities and contributions to endowments.

During the 2020-2021 fiscal year, the investment markets experienced a significant recovery and achieved significant gains compared to the prior year losses during the height of the pandemic. As of May 31, 2021, the University recorded unrealized gains on invested assets of approximately \$20.5 million in addition to a positive change in the value of beneficial interests of approximately \$9.9 million. A significant portion of this increase is related to market values for mineral interests due to oil and gas prices. Unrealized gains or losses on investments and changes in value of beneficial interests are a function of the change in market values as of the last day of the fiscal year and production volume and prices of mineral assets during the year. Hence, they are not considered operating gains or losses for the University. Additionally, market conditions influence the payout of endowment earnings although the effect tends to lag behind the change in market value.

The University continued to identify operating efficiencies where possible throughout the fiscal year. Operating expenses were approximately \$43.9 million for the year ended May 31, 2021, compared to approximately \$44.1 million for the previous fiscal year, a decrease of approximately 1%.

Total net assets increased from approximately \$228.7 million at the end of the previous fiscal year to just over \$266.9 million as of May 31, 2021. This increase is due largely to unrealized gains on investments and endowed assets.

## CONCLUSION

The University continues to balance providing top academic programs and student services for students at a reasonable price. As a private institution, the University must do this without state funding. This requires the University to continually focus on effectively and efficiently using its resources to advance the University's mission. The University is committed to transforming the lives of students and seeing them make a difference in this world for Christ.

**SECTION II**

**Audited Consolidated Financial Statements**

**OKLAHOMA BAPTIST UNIVERSITY**

May 31, 2021 and 2020

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Oklahoma Baptist University  
Shawnee, Oklahoma

We have audited the accompanying consolidated financial statements of Oklahoma Baptist University, which comprise the consolidated statements of financial position as of May 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Trustees  
Oklahoma Baptist University  
Shawnee, Oklahoma

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oklahoma Baptist University as of May 31, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Irving, Texas  
November 12, 2021



# OKLAHOMA BAPTIST UNIVERSITY

## Consolidated Statements of Financial Position

	May 31,	
	2021	2020
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 2,386,877	\$ 1,293,143
Accounts receivable, net	3,042,736	2,781,668
Prepaid expenses and other assets	463,408	850,457
Student loans receivable	717,961	870,553
Investments	35,259,632	26,199,252
Funds held by others and remainder interests receivable	153,945,931	125,505,707
Educational plant, net	102,149,614	105,119,998
<b>Total Assets</b>	<b>\$ 297,966,159</b>	<b>\$ 262,620,778</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,377,206	\$ 621,343
Accrued expenses and other liabilities	533,188	522,571
Prepaid tuition and other deposits	295,023	983,573
Unamortized investment in educational plant	1,985,805	2,149,022
Paycheck Protection Program loan	-	670,689
Long-term debt, net	21,925,016	24,005,388
Post-retirement benefits obligation	3,456,600	3,348,000
Asset retirement obligation	1,183,400	1,124,859
Government advances refundable	325,476	478,409
<b>Total liabilities</b>	<b>31,081,714</b>	<b>33,903,854</b>
<b>Net assets:</b>		
Without donor restrictions	94,348,266	87,855,817
<b>With donor restrictions:</b>		
Restricted by time or purpose	52,137,908	32,390,424
Perpetual in nature	120,398,271	108,470,683
	172,536,179	140,861,107
<b>Total net assets</b>	<b>266,884,445</b>	<b>228,716,924</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 297,966,159</b>	<b>\$ 262,620,778</b>

See notes to consolidated financial statements

# OKLAHOMA BAPTIST UNIVERSITY

## Consolidated Statement of Activities

	Year Ended May 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE, GAINS, AND OTHER SUPPORT:</b>			
Tuition and fees, net	\$ 21,018,722	\$ -	\$ 21,018,722
Contributions and grants	1,446,692	2,933,522	4,380,214
Government grants related to COVID-19	3,814,324	-	3,814,324
Allocation from Oklahoma Baptists	2,351,379	-	2,351,379
Royalties from Tulsa Royalties Company	-	1,605,250	1,605,250
Auxiliary services	9,668,006	-	9,668,006
Investment and endowment income	7,361,647	20,632,908	27,994,555
Change in value of beneficial interests in funds held by others	-	9,909,334	9,909,334
Other income	1,295,154	-	1,295,154
Net assets released from restrictions due to satisfaction of purpose and time restrictions and transfers	3,405,942	(3,405,942)	-
<b>Total Revenue, Gains, and Other Support</b>	<b>50,361,866</b>	<b>31,675,072</b>	<b>82,036,938</b>
<b>EXPENSES:</b>			
Program activities:			
Educational activities	15,766,691	-	15,766,691
Student services	11,280,776	-	11,280,776
Auxiliary services	8,318,307	-	8,318,307
Support services	8,503,644	-	8,503,644
<b>Total Expenses</b>	<b>43,869,418</b>	<b>-</b>	<b>43,869,418</b>
Change in Net Assets	6,492,448	31,675,072	38,167,520
Net Assets, Beginning of Year	87,855,817	140,861,107	228,716,924
Net Assets, End of Year	\$ 94,348,265	\$ 172,536,179	\$ 266,884,444

See notes to consolidated financial statements

# OKLAHOMA BAPTIST UNIVERSITY

## Consolidated Statement of Activities

	Year Ended May 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE, GAINS, AND OTHER SUPPORT:</b>			
Tuition and fees, net	\$ 21,791,621	\$ -	\$ 21,791,621
Contributions and grants	16,696,723	5,210,535	21,907,258
Government grants related to COVID-19	5,692,802	-	5,692,802
Allocation from Oklahoma Baptists	2,418,303	-	2,418,303
Royalties from Tulsa Royalties Company	-	1,619,250	1,619,250
Auxiliary services	8,875,638	-	8,875,638
Investment and endowment income	1,612,915	(717,926)	894,989
Change in value of beneficial interests in funds held by others	-	(1,962,226)	(1,962,226)
Other income	1,684,342	250,315	1,934,657
Net assets released from restrictions due to satisfaction of purpose and time restrictions and transfers	3,773,393	(3,773,393)	-
<b>Total Revenue, Gains, and Other Support</b>	<b>62,545,737</b>	<b>626,555</b>	<b>63,172,292</b>
<b>EXPENSES:</b>			
Program activities:			
Educational activities	16,533,745	-	16,533,745
Student services	11,206,062	-	11,206,062
Auxiliary services	7,828,889	-	7,828,889
Support services	8,500,534	-	8,500,534
<b>Total Expenses</b>	<b>44,069,230</b>	<b>-</b>	<b>44,069,230</b>
Change in Net Assets	18,476,507	626,555	19,103,062
Net Assets, Beginning of Year	69,379,310	140,234,552	209,613,862
Net Assets, End of Year	<b>\$ 87,855,817</b>	<b>\$ 140,861,107</b>	<b>\$ 228,716,924</b>

See notes to consolidated financial statements

# OKLAHOMA BAPTIST UNIVERSITY

## Consolidated Statements of Cash Flows

	Year Ended May 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from donors and grantors	\$ 9,666,806	\$ 11,405,742
Cash received from students	30,292,106	31,290,300
Interest and dividends received	2,748,399	1,866,739
Other cash received	1,457,458	2,109,660
Cash paid to or on behalf of employees	(23,629,255)	(24,314,064)
Cash paid to students	(984,832)	(949,306)
Cash paid to vendors	(13,162,566)	(14,726,086)
Cash paid for interest	(901,142)	(966,402)
Net Cash Provided by Operating Activities	5,486,974	5,716,583
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of educational plant assets	(1,075,277)	(2,063,685)
Proceeds from sales of investments	8,625,066	9,691,263
Purchases of investments	(9,862,657)	(16,050,303)
Net Cash Used by Investing Activities	(2,312,868)	(8,422,725)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(2,080,372)	(2,108,260)
Proceeds from paycheck protection loan	-	4,370,400
Net Cash Provided (Used) by Financing Activities	(2,080,372)	2,262,140
Change in Cash and Cash Equivalents	1,093,734	(444,002)
Cash and Cash Equivalents, Beginning of Year	1,293,143	1,737,145
Cash and Cash Equivalents, End of Year	\$ 2,386,877	\$ 1,293,143

See notes to consolidated financial statements

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 1. NATURE OF ORGANIZATION:

The Oklahoma Baptist University (OBU) was created by action of the Baptist General Convention of Oklahoma (Oklahoma Baptists) in 1909 to function as an operating unit under the supervision of a board of trustees elected by Oklahoma Baptists. Articles of Incorporation were filed February 9, 1910, and amended November 25, 1974, with the State of Oklahoma and a charter was granted for a corporation of perpetual duration without capital stock. The purposes of the corporation are to encourage, support, provide, and maintain Christian education and to engage in Christian undertakings which are in keeping with the purpose of Oklahoma Baptists.

OBU is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, OBU is subject to federal income tax on any unrelated business taxable income. In addition, OBU is not classified as a private foundation within the meaning of Section 509(a) of the IRC. Contributions to OBU are tax deductible within the limitations prescribed by the Code.

During 1991, OBU accepted a gift of the Tulsa Royalties Company (the Company) as partial payment of a pledge used for the construction of the College of Business building. The Company (a public charity) remains intact as a separate corporation, with its directors being chosen from OBU's board of trustees. When OBU received the Company, most of the assets were mineral interests. Additional mineral interests have been donated to the Company since that time. The Company is a supporting organization of OBU.

During 2018, MacK Holdings LLC (the LLC) was created to manage retail leasing operations for OBU, and OBU is the sole member of the LLC. The LLC has a board of managers who are appointed by OBU to manage and direct the business activity. OBU, the Company and the LLC are collectively referred to in these consolidated financial statements as the University.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### BASIS OF PRESENTATION

The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the consolidated financial resources and activities of OBU, the Company, and the LLC. All material transactions and balances between OBU, the Company, and the LLC have been eliminated in the consolidated financial statements.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and on deposit in demand and interest-bearing accounts administered by the University. As of May 31, 2021 and 2020, the University had certain concentrations of credit risk with several financial institutions in the form of uninsured cash and time deposits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the University is periodically reviewed and management of the University believes that credit risk related to these uninsured deposits is minimal. At May 31, 2021 and 2020, the University's cash balances exceeded federally insured limits by \$2,134,814 and \$1,186,423, respectively. The University has not experienced any losses on such accounts.

#### INVESTMENTS

The University reports investments at fair value in the consolidated statements of financial position, with the exception of certificates of deposit, which are based on amortized cost or original cost plus accrued interest. Gains and losses are included in the consolidated statements of activities in the period incurred. The methodologies for determining fair values are described in Note 7. The amounts the University will ultimately realize could differ materially and significant fluctuations in fair values could occur from year to year. Donated securities are recorded at market value at the date of donation and thereafter carried or sold in accordance with these policies.

Gains and losses on investments are reported in the consolidated statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations or by law. See Note 7 for fair value measurements and disclosures.

#### ACCOUNTS RECEIVABLE

Student accounts receivable are reported net of anticipated losses due to uncollectible accounts. The University allows students to utilize an installment plan to pay their student account balances. Late or insufficient payments are subject to late fees. In addition, account balances not paid by the final installment due date for a semester are subject to finance charges of 15% per annum. Students who leave the University owing a balance are considered delinquent and are subject to internal collection efforts. If internal collection efforts are unsuccessful, those accounts are turned over to a third-party collection agency. Accounts turned over to a third-party collection agency no longer accrue finance charges.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### ACCOUNTS RECEIVABLE, continued

The University maintains an allowance for uncollectible accounts. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, payment patterns from the students, and general economic conditions. The allowance is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. As of May 31, 2021 and 2020, the allowance for uncollectible accounts was \$4,141,000 and \$3,635,000, respectively.

#### CONDITIONAL PROMISES TO GIVE

During 2011, the University launched a capital campaign, Vision for a New Century, to raise contributions to increase the University endowment and fund several campus renovation and construction projects. The University has received good faith promises of specified amounts to support these campaign projects. These good faith promises are open-ended and subject to unilateral change by the donor. They are not considered to be unconditional promises to give and, therefore, are not recognized prior to receipt of the contribution. The campaign was completed in December 2018. As of May 31, 2021 and 2020, total outstanding good faith promises received by the University for the campaign as well as other pledges made subsequent to the campaign approximated \$5,244,221 and \$5,678,000, respectively. Total accumulated campaign gifts, which include outstanding good faith promises, were approximately \$52.8 million.

#### STUDENT LOANS RECEIVABLE

The University has outstanding student loans receivable totaling \$717,961 and \$870,553 as of May 31, 2021 and 2020, respectively. This loan portfolio consists of loans outstanding under the U.S. Government Perkins loan program as well as loans made under the University's endowed loan program. The loans are stated at net realizable value in the accompanying consolidated financial statements and are presented net of an allowance for uncollectible amounts totaling approximately \$539,000 as of May 31, 2021 and 2020.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### FUNDS HELD BY OTHERS AND REMAINDER INTERESTS

Funds held by others represent amounts held for the beneficial interest of the University under irrevocable perpetual agreements established by a donor. In some cases, the University is custodian of the funds but has placed them at WatersEdge for investment management. In other cases, a third-party trustee is the custodian of the funds and is responsible for investment management. The University's interests are recorded at the fair value of the net assets, with net increases or decreases in fair value during the year being reported as changes to the appropriate net asset class. Some funds include other life beneficiaries which may affect the valuation of endowment assets. Distributions from the trusts are recorded as investment income in the consolidated statements of activities as either without donor restrictions or with donor restriction depending on the donor restriction on the use of income. If the donor restriction is met within the same year as the income is received, the University reports the income as without donor restrictions. The amounts the University will ultimately realize could differ materially and significant fluctuations in fair values could occur from year to year.

Remainder interests represent amounts held by others that will be transferred to the University upon death of the current beneficiaries.

#### EDUCATIONAL PLANT

Plant facilities are stated at cost less accumulated depreciation or, if received as a gift, at fair value at the date received, less any subsequent accumulated depreciation. Generally, improvements, renovations and equipment purchases in excess of \$2,000 are capitalized. Depreciation is recognized on a straight-line basis over the estimated useful lives of the related assets as follows: buildings and improvements (50 years), land improvements (30 years), library books (20 years), equipment and software (10 years), and vehicles and computer equipment (5 to 10 years). Depreciation begins in the year following the year of acquisition.

#### UNAMORTIZED INVESTMENT IN EDUCATIONAL PLANT

During the year ended May 31, 2015, a major renovation of the University's food service facilities was completed. As part of the contract with the University, the University's food service vendor invested approximately \$3.1 million in the renovation. During the year ended May 31, 2020, the food service vendor invested additional funds. This investment is being amortized over the period of the vendor contract which will expire in July 2033. The unamortized portion of the investment is recognized as a liability in the consolidated statements of financial position. If the University were to terminate the contract early, the University would be obligated to reimburse the food service vendor for the unamortized portion of the improvements.



# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### ASSET RETIREMENT OBLIGATION

Asset retirement obligations for asbestos remediation are recorded in accordance with GAAP. Initially, the obligation was recorded at fair value and the related asset retirement costs were capitalized. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records changes in the asset retirement obligation which result from the passage of time and/or revisions to either the timing of amount or the original estimate of undiscounted cash flows as they occur.

#### GOVERNMENT ADVANCES REFUNDABLE

Funds provided by the U.S. Government under the Federal Perkins Loan Program are loaned to qualified students. These funds are ultimately refundable to the government and are reported as government advances refundable on the consolidated statements of financial position.

#### NET ASSETS

Information regarding financial position and activities is reported in two classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets are classified as follows:

*Net assets without donor restrictions* are those resources not subject to donor-imposed restrictions available for operating purposes. They may be designated for specific purposes by action of the board of trustees.

*Net assets with donor restrictions* are subject to donor-imposed restrictions that have not been met as to specified purpose or to later periods of time. These include donor restrictions requiring that the net asset to be held in perpetuity but permit the University to use all or part of the income earned on related investments for specific purposes. Such net assets also include the University's beneficial interest in irrevocable trusts held by others as well as net assets restricted in perpetuity for student loan programs.

#### REVENUES, GAINS, AND OTHER SUPPORT

Tuition revenue is recognized ratably in the reporting period in which the academic programs are delivered. Programs are delivered in fall, winter, and spring academic terms, as well as a summer term. The summer term starts in June and ends in July. Tuition and other payments made in advance are deferred as a liability, titled prepaid tuition and other deposits. Tuition revenue is recorded net of discounts for scholarships of \$29,210,648 and \$29,489,344 for the years ended May 31, 2021 and 2020, respectively.

Refunds issued to students reduce the amount of the tuition recognized as revenue. Refunds given to students in total for the years ended May 31, 2021 and 2020, totaled approximately \$1,500,000 and \$1,800,000, respectively.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### REVENUES, GAINS, AND OTHER SUPPORT, continued

Support is recognized when contributions and grants are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the University. Conditional promises to give are not recorded until conditions are substantially met. The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Assets received with donor-imposed restrictions that the University intends to use and actually uses within the same reporting period as received are treated in the same manner as revenues without donor restrictions for reporting purposes.

The University reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

Scholarships funded by operating funds without donor restrictions and contributions and earnings on assets specifically restricted for financial aid are netted against gross tuition and fees revenue (Note 13). Tuition discounts granted to employees and their dependents are reported as an employee benefit expense in the consolidated statements of functional expenses.

Prepaid tuition and other deposits represent payments received before the services or products are provided by the University.

During the years ended May 31, 2021 and 2020, the University received funding under the Cares Act for the Higher Education Emergency Relief Fund, as further described in Note 19. The University also received \$127,767 and \$94,479, respectively, from the Strengthening Institutions Program. Finally, the University received a Paycheck Protection Program loan during the year ended May 31, 2020. Revenue recognized for all of these funds is included on the consolidated statements of activities as government grants related to COVID-19.

#### STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in various financial aid programs administered by the Department of Education (ED) and state boards, and the University acts as an agent for the respective agencies. The governmental grants amounts reported exclude funds directly awarded and credited to students under these various federal and state programs. Each year, collection of a substantial portion of tuition and fee revenue is dependent upon the University's continued participation in these various programs.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### EXPENSES

Expenses are recorded as incurred in accordance with the accrual basis of accounting. The costs of providing the various programs and supporting activities of the University have been summarized on a functional basis in the consolidated statements of activities and on a natural classification basis in Note 16. Accordingly, certain costs have been allocated based on total personnel costs or other systematic bases. Advertising and promotion costs of \$725,104 and \$692,247, respectively, for the years ended May 31, 2021 and 2020, are charged to expense as incurred.

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation and amortization, interest, the president's office, media production, information technology, and facilities operations and maintenance. Depreciation is allocated base on square footage and interest is allocated based on usage of space related to the debt. Costs of other categories were allocated on estimates of time and effort. Total expenses include all operating expenses and the net periodic pension cost other than service cost.

#### NEW ACCOUNTING STANDARDS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The University adopted the provisions of this new standard during the year ended May 31, 2021. The new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard did not have a material effect on the consolidated financial statements.

In 2018, Financial Accounting Standards Board (FASB) issued ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*. The University adopted the provisions of this new standard during the year ended May 31, 2021. The new standard applies to simplifying the disclosures related to fair value measurements and may have a future impact on the disclosure of the University's Level 3 inputs as of May 31, 2021 (Note 7). Adoption of this standard did not have a material effect on the consolidated financial statements.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the University's financial assets, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action.

	May 31,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 2,386,877	\$ 1,293,143
Accounts receivable	3,042,736	2,781,668
Student notes receivable	717,961	870,553
Investments	35,259,632	26,199,252
Funds held by others and remainder interests receivable	153,945,931	125,505,707
Financial assets, at year-end	195,353,137	156,650,323
Less those unavailable for general expenditure within one year, due to:		
Accounts receivable collectible beyond one year	(1,086,458)	(1,112,667)
Student loans receivable restricted	(717,961)	(870,553)
Investments not convertible to cash within next 12 months or restricted by donors for use in future periods	(12,950,872)	(9,599,108)
Purpose restrictions to be spent beyond one year	(24,565,443)	(11,627,205)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(120,398,271)	(108,470,683)
Investments in board designated endowments	(5,476,109)	(3,769,777)
Financial assets available to meet cash needs for general expenditures within one year	\$ 30,158,023	\$ 21,200,330

The University regularly monitors liquidity required to meet its operating needs and contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities as well as the conduct of service undertaken to support those activities to be general expenditures. Student loan receivables are not considered to be available to meet general expenditures because loan repayments are restricted. In addition to financial assets available to meet general expenditures over the next 12 months, the University anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

4. STUDENT LOANS RECEIVABLE:

As an agent for the federal government, the University's Perkins loan portfolio is guaranteed by the United States Department of Education (ED). There are, therefore, no impaired loans, no nonperforming loans, and no modifications to loan terms executed by the University because amounts that become stale or past due are in due course returned to the ED. Funds advanced by the Federal government of \$325,476 and \$478,409, respectively, as of May 31, 2021 and 2020, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

The University also has an endowed loan portfolio which has similar terms and conditions as the Perkins loan portfolio. An allowance for uncollectible amounts is established for the endowed loan portfolio based on prior collection experience and current economic factors. In management's judgment, these economic factors could influence the ability of loan receivable recipients to repay the amounts per the credit terms.

The student loans receivable portfolio consists of:

	May 31,	
	2021	2020
Perkins student loan portfolio	\$ 593,372	\$ 710,851
Endowed student loan portfolio	663,845	698,958
	<u>1,257,217</u>	<u>1,409,809</u>
Less allowance for uncollectible amounts	(539,256)	(539,256)
	<u>\$ 717,961</u>	<u>\$ 870,553</u>

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

4. STUDENT LOANS RECEIVABLE, continued:

The aging of the Perkins and Endowed loan portfolio by class of loans as of May 31, 2021, consists of:

	Amount	Percent of Subtotal
<b><u>Good Standing</u></b>		
Deferred and not in repayment	\$ 164,637	51%
Repayment on schedule	159,699	49%
	324,336	100%
 <b><u>Past Due</u></b>		
Not defaulted: Less than 240 days	69,683	7%
Default: Greater than 240 but less than 2 years	46,276	5%
Default: Greater than 2 years but less than 5 years	208,706	22%
Greater than 5 years	608,216	66%
	932,881	100%
Less allowance	(539,256)	
Total student loans receivable	\$ 717,961	

The aging of the Perkins and Endowed loan portfolio by class of loans as of May 31, 2020, consists of:

	Amount	Percent of Subtotal
<b><u>Good Standing</u></b>		
Deferred and not in repayment	\$ 260,243	59%
Repayment on schedule	182,205	41%
	442,448	100%
 <b><u>Past Due</u></b>		
Not defaulted: Less than 240 days	79,576	8%
Default: Greater than 240 but less than 2 years	118,683	12%
Default: Greater than 2 years but less than 5 years	252,175	26%
Greater than 5 years	516,927	54%
	967,361	100%
Less allowance	(539,256)	
Total student loans receivable	\$ 870,553	

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

4. STUDENT LOANS RECEIVABLE, continued:

Changes in allowance for estimated losses on Perkins and endowed student loans:

	Year Ended May 31,	
	2021	2020
Beginning balance	\$ 539,256	\$ 539,256
Loans charged off	-	-
	\$ 539,256	\$ 539,256

5. INVESTMENTS:

Investments consist of:

	May 31,	
	2021	2020
Certificates of deposit and cash equivalents	\$ 4,475	\$ 185,526
Institutional cash fund	21,505,965	15,511,311
Mineral interests	12,807,304	9,498,304
Bond pooled funds	775,464	754,856
Equity mutual funds	44,519	177,293
Domestic equities, exchange traded funds, and other	121,905	71,962
	\$ 35,259,632	\$ 26,199,252
Investments without donor restrictions	\$ 26,368,765	\$ 18,389,170
Restricted investments	8,890,867	7,810,082
	\$ 35,259,632	\$ 26,199,252

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

6. FUNDS HELD BY OTHERS AND REMAINDER INTERESTS RECEIVABLE:

Funds held by others were held by the following entities:

	May 31,	
	2021	2020
Trust assets placed at WatersEdge for investment	\$ 89,685,336	\$ 72,290,134
Trusts administered by WatersEdge	60,135,350	49,529,573
Trust administered by Arvest Asset Management	2,075,581	1,926,225
Trusts administered by the Oklahoma City Community Foundation	908,832	750,128
Trust administered by Northern Trust Company	885,844	783,813
Trusts administered by Southern Baptist Foundation	239,693	210,539
Trust administered by Presbyterian Foundation	15,295	15,295
	\$ 153,945,931	\$ 125,505,707

Assets held by WatersEdge as trustee or in a custodial capacity are predominantly pooled investment interests consisting of approximately 70% equity and 30% fixed income investments (spending policy pool) with various alternative investments utilized in both of those categories in addition to traditional stock and bond portfolios. Some of the alternative investments within the investment pool have certain liquidity restrictions, but WatersEdge does not pass these restrictions to the University. These assets are carried at pooled net asset value. In addition, WatersEdge holds mineral interests and real estate for the University.

Funds held by others are invested as follows:

	May 31,	
	2021	2020
Spending policy pool	\$ 77,948,157	\$ 70,971,458
Beneficial interests in funds held by others	62,495,858	51,741,254
Mineral interests	11,701,655	1,287,356
Charitable remainder interests	1,764,737	1,474,319
Pooled domestic equities	35,524	31,320
	\$ 153,945,931	\$ 125,505,707



# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT:

The following disclosures of estimated fair value of financial instruments as of May 31, 2021 and 2020, are made in accordance with the requirements of the *Disclosures about Fair Value of Financial Instruments* topic of the FASB Accounting Standards Codification (ASC). The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies.

Investments and funds held by others and remainder interests:

*Equities, municipal bonds and bond funds, federal securities, mutual funds, and commodities*

The fair values are based on quoted market prices.

*Corporate bonds*

The fair value of corporate bonds and bond mutual funds are estimated using quoted market prices, if available, otherwise recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit-default swap spreads and volatility.

*Cash equivalents invested in institutional cash fund*

The institutional cash fund represents the University's interest in a cash equivalent on deposit with WatersEdge.

*Certificates of deposit*

Certificates of deposit are based on amortized cost or original cost plus accrued interest.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT, continued:

*Mineral interests*

Investments in mineral interests are carried at fair value calculated by multiplying the most recent twelve months of royalty income, excluding lease bonus income, times a multiple. A multiple of five was used for the valuation which is determined using current industry methodology and recent market transactions.

*Pooled investments*

Pooled funds are held by WatersEdge and the Oklahoma City Community Foundation. The fair values of the domestic equities, international equities, and fixed income funds are provided by the brokers of the underlying assets. The alternative investments are carried at their net asset value as provided by the administrator or general partner, which approximates fair value. The University's interest is carried at net asset value. There are no redemption restrictions or capital calls on the funds valued at net asset value.

*Beneficial interest in funds held by others*

The fair value of beneficial interest in funds held by others is the underlying net asset value of pooled funds for beneficial interests to be held in perpetuity.

*Charitable remainder interests*

The fair value is based on the underlying assets of the trusts.

The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT, continued:

Fair values of assets measured on a recurring basis as of May 31, 2021, are:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mineral interests	\$ 12,807,304	\$ -	\$ -	\$ 12,807,304
Domestic equities	98,895	98,895	-	-
Equity mutual growth funds	44,519	44,519	-	-
Exchange traded funds	23,010	23,010	-	-
	12,973,728	166,424	-	12,807,304
Reconciling items at net asset value:				
Pooled high quality funds	388,471			
Pooled multi-strategy funds	386,993			
	775,464			
Total investments at fair value	13,749,192			
Reconciling item at cost:				
Cash equivalents invested in institutional cash fund	21,505,965			
Certificates of deposit and cash equivalents	4,475			
	21,510,440			
Total investments	\$ 35,259,632			

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT, continued:

Fair values of assets measured on a recurring basis as of May 31, 2021, are, continued:

	Fair Value Measurements Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Funds held by others and remainder interests:				
Held by WatersEdge:				
Beneficial interest in funds				
held by others	\$ 58,370,613	\$ -	\$ -	\$ 58,370,613
Charitable remainder				
interests	1,764,737	-	1,764,737	-
Domestic equity	35,524	35,524	-	-
Other investments:				
Mineral interests	11,701,655	-	-	11,701,655
Held by the Oklahoma City				
Community Foundation:				
Beneficial interest in funds				
held by others	908,832	-	-	908,832
Held by other trustees:				
Beneficial interest in funds				
held by others	3,216,413	-	-	3,216,413
	<u>75,997,774</u>	<u>35,524</u>	<u>1,764,737</u>	<u>74,197,513</u>
Reconciling items at net asset value:				
Held by WatersEdge:				
Spending policy pool	<u>77,948,157</u>			
Total funds held by others and remainder interests	<u><u>\$ 153,945,931</u></u>			

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT, continued:

Fair values of assets measured on a recurring basis as of May 31, 2020, are:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mineral interests	\$ 9,498,304	\$ -	\$ -	\$ 9,498,304
Domestic equities	56,206	56,206	-	-
Exchange traded funds	15,756	15,756	-	-
Equity mutual funds:				
Fixed income funds	123,614	123,614	-	-
Growth funds	53,679	53,679	-	-
	9,747,559	249,255	-	9,498,304
Reconciling items at net asset value:				
Pooled high quality funds	379,474			
Pooled multi-strategy funds	375,382			
	754,856			
Total investments at fair value	10,502,415			
Reconciling item at cost:				
Cash equivalents invested in institutional cash fund	15,511,311			
Certificates of deposit and cash equivalents	185,526			
	15,696,837			
Total investments	\$ 26,199,252			

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT, continued:

Fair values of assets measured on a recurring basis as of May 31, 2020, are, continued:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets for Identical Assets Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Funds held by others and remainder interests:			
Held by WatersEdge:			
Beneficial interest in funds			
held by others	\$ 48,055,254	\$ -	\$ 48,055,254
Charitable remainder			
interests	1,474,319	-	-
Domestic equity	31,320	31,320	-
Other investments:			
Mineral interests	1,287,356	-	1,287,356
Held by the Oklahoma City			
Community Foundation:			
Beneficial interest in funds			
held by others	750,128	-	750,128
Held by other trustees:			
Beneficial interest in funds			
held by others	2,935,872	-	2,935,872
	<u>54,534,249</u>	<u>31,320</u>	<u>53,028,610</u>
Reconciling items at net asset value:			
Held by WatersEdge:			
Spending policy pool	<u>70,971,458</u>		
Total funds held by others and remainder interests	<u><u>\$ 125,505,707</u></u>		

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT, continued:

The following table provides further details of the Level 3 mineral interests fair value measurements:

	Year Ended May 31,	
	2021	2020
Beginning balance	\$ 10,785,660	\$ 14,527,517
Change in unrealized appreciation (depreciation)	13,723,299	(3,741,857)
Ending balance	<u>\$ 24,508,959</u>	<u>\$ 10,785,660</u>

8. ENDOWMENT:

The University's endowment consists of numerous individual funds established for a variety of purposes including scholarships and operating support. The endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions.

The board of trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift 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 - perpetual in nature (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual in nature is classified as net assets with donor restrictions - restricted by time or purpose until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

8. ENDOWMENT, continued:

Changes in endowment net assets for the year ended May 31, 2021:

	With Donor Restrictions			Total
	Without Donor Restrictions	Original Gift Amount *	Accumulated Gains (Losses) and Other **	
Endowment net assets, beginning of year	\$ 3,769,777	\$ 55,210,126	\$ 19,208,483	\$ 78,188,386
Investment return:				
Investment income	627,042	-	4,014,735	4,641,777
Net gains (realized and unrealized)	1,659,691	-	14,783,211	16,442,902
	2,286,733	-	18,797,946	21,084,679
Contributions	-	978,503	55,028	1,033,531
Amounts appropriated for expenditure	(580,400)	-	(2,577,840)	(3,158,240)
	(580,400)	978,503	(2,522,812)	(2,124,709)
Endowment net assets, end of year	\$ 5,476,110	\$ 56,188,629	\$ 35,483,617	\$ 97,148,356

\* Amounts represent the portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulations or by UPMIFA

\*\* Amounts represent the portion of perpetual endowment funds subject to a time restriction under UPMIFA. Donor-restricted endowments may also contain gifts of net assets with donor restrictions restricted by purpose to be utilized for immediate distribution until the endowment has accumulated earnings available for distributions.



# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

8. ENDOWMENT, continued:

Changes in endowment net assets for the year ended May 31, 2020:

	With Donor Restrictions			Total
	Without Donor Restrictions	Original Gift Amount *	Accumulated Gains (Losses) and Other **	
Endowment net assets, beginning of year	\$ 4,043,405	\$ 51,893,001	\$ 20,195,733	\$ 76,132,139
Investment return:				
Investment income	709,370	-	3,790,241	4,499,611
Net losses (realized and unrealized)	(373,804)	-	(1,771,219)	(2,145,023)
	335,566	-	2,019,022	2,354,588
Contributions	-	3,317,125	268,859	3,585,984
Amounts appropriated for expenditure	(609,194)	-	(3,275,131)	(3,884,325)
	(609,194)	3,317,125	(3,006,272)	(298,341)
Endowment net assets, end of year	\$ 3,769,777	\$ 55,210,126	\$ 19,208,483	\$ 78,188,386

\* Amounts represent the portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulations or by UPMIFA.

\*\* Amounts represent the portion of perpetual endowment funds subject to a time restriction under UPMIFA. Donor-restricted endowments may also contain gifts of net assets with donor restrictions restricted by purpose to be utilized for immediate distribution until the endowment has accumulated earnings available for distributions.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

8. ENDOWMENT, continued:

As disclosed in Note 12, at May 31, 2021 and 2020, net assets restricted in time and perpetuity included the following net assets in addition to the endowment net assets disclosed above:

	Without Donor Restrictions	With Donor Restrictions	Total
May 31, 2021:			
Beneficial interests	\$ -	\$ 62,494,088	\$ 62,494,088
Future interest in remainder interests	\$ -	\$ 1,764,738	\$ 1,764,738
Held by the University for student loan programs and scholarships	\$ -	\$ 199,477	\$ 199,477
May 31, 2020:			
Beneficial interests	\$ -	\$ 51,741,253	\$ 51,741,253
Future interest in remainder interests	\$ -	\$ 1,474,319	\$ 1,474,319
Held by the University for student loan programs and scholarships	\$ -	\$ 221,024	\$ 221,024

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration, due to unfavorable market fluctuations. As of May 31, 2021, no donor-restricted endowed funds fell below this level. As of May 31, 2020, deficiencies of this nature existed in fifty-three donor-restricted endowment funds with original gift value of \$7,628,109, current fair value of \$7,441,241, and a deficiency of \$186,868, which is reported in net assets with donor restrictions.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity, as well as board designated funds. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce an inflation adjusted income stream to grow corpus above the inflation rate. The University expects its endowment funds, over time, to provide an average rate-of-return of approximately 9-10% annually. Actual returns in any given period may vary from this amount.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

8. ENDOWMENT, continued:

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

The spending or distribution policy of the University, as determined under a method adopted annually by the board of trustees, provides for the establishment of an annual distribution calculation based on a weighted average of the prior year's annual dividend adjusted for inflation and 4.5% of the average of the trailing 12 months' spending policy pool share price. This rate will be subject to a floor of 3% and a cap of 5% of the prior December 31 pool share value. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. From time to time, the board of trustees undesignates board designated funds without donor restrictions to be used for certain projects. These funds are included in amounts appropriated for expenditure.

9. EDUCATIONAL PLANT, NET:

The components of educational plant, net are:

	May 31,	
	2021	2020
Land and improvements	\$ 8,579,079	\$ 8,510,379
Buildings	127,724,913	127,082,241
Equipment	29,616,914	28,961,856
Software	3,861,361	3,837,151
Library books	946,829	1,037,241
Construction in progress	-	321,120
	<u>170,729,096</u>	<u>169,749,988</u>
Accumulated depreciation	<u>(68,579,482)</u>	<u>(64,629,990)</u>
	<u>\$ 102,149,614</u>	<u>\$ 105,119,998</u>

During the year ended May 31, 2020, the University received the donation of two properties close to the University's main campus. Based on appraisals performed, the University recorded gift-in-kind contributions of approximately \$15,000,000 for the two properties which is included in contributions and grants on the consolidated statements of activities.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 10. LONG-TERM DEBT, NET:

The University has promissory notes with the Oklahoma Baptist University Authority (the Authority) which were issued to obtain funds for projects such as the construction and renovation of buildings and the purchase of equipment for the University. The maturity dates of these promissory notes coincide with the maturity date of the related Authority debt as noted below. Assets totaling approximately \$61,737,000 have been constructed and purchased under this arrangement as of May 31, 2021 and 2020. Accumulated amortization on these assets is approximately \$19,833,000 and \$18,610,000 and as of May 31, 2021 and 2020, respectively. These assets are included in educational plant assets.

The Authority financed these projects by issuing debt. As of May 31, 2021, there are currently four Authority bank notes outstanding, as follows: the Oklahoma Baptist University Authority Student Housing Revenue Note, Series 2012; the Oklahoma Baptist University Authority Student Housing Revenue Note, Series 2013; and the Oklahoma Baptist University Authority Refunding Revenue Notes, Series 2015A and Series 2015B, with University promissory notes to the Authority for each bank note.

In October 2011, the board of trustees approved a resolution to proceed with plans for various construction projects including additional housing for students. Funding for these construction projects consists of a combination of existing funds, future gifts and pledges, and long-term financing. The long-term financing consisted of a 20-year term \$8,000,000 bank note which was issued by the Authority in May 2012 to construct the first two apartment buildings. This note has a fixed interest rate of 3.23%. In November 2013, a second bank note in the amount of \$13,500,000 was issued to finance the construction of buildings 3 and 4. The second bank note has a fixed interest rate of 4.4% and a term of 262 months.

In December 2015, the Authority issued a \$7,355,000 bank note to refund the remaining portion of outstanding bonds of the Oklahoma Baptist University Revenue Bonds, Series 2005. The Series 2005 bonds were originally issued to fund the construction of the University's Recreation and Wellness Center. This bank note has a fixed interest rate of 2.12% and a term of 11.5 years. Additionally, upon completion of the construction of Stavros Hall in November 2015, the Authority issued a 12-year \$3.5 million bank note to fund the remaining amount of Stavros Hall. This note has a 2.22% fixed interest rate.

All outstanding debt is secured by general revenue of the University and by a guarantee of Oklahoma Baptists.

Additionally, the University entered into various capital lease agreements for technology, nursing simulation, and other equipment. Assets totaling approximately \$2,615,000 have been purchased under these leases and are included in educational plant assets. Accumulated amortization as of May 31, 2021 and 2020, on these assets was approximately \$2,372,155 and \$2,129,000 respectively.

Amortization expense under these lease agreements is included in depreciation expense on the consolidated statements of activities.

Approximately \$160,000 of debt issuance costs is netted against the long-term debt balance as of May 31, 2021, and \$186,000 as of May 31, 2020.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 10. LONG-TERM DEBT, NET, continued:

The following is a schedule of future minimum debt payments under the long-term notes payable:

<u>Year Ending May 31,</u>	
2022	\$ 1,864,311
2023	1,923,200
2024	1,982,615
2025	2,047,089
2026	2,112,306
Thereafter	<u>11,995,495</u>
Present value of net minimum debt payments	<u>\$ 21,925,016</u>

### 11. POST-RETIREMENT BENEFITS OBLIGATION:

The University maintains a postretirement benefit plan for exempt employees who retired prior to May 31, 2016, had reached the age of 65, and had a minimum of fifteen years of service. Employees retiring after May 31, 2016, are not eligible to participate. Participants are eligible for term life insurance and a Medicare supplement insurance policy. In 2011, the plan was revised to provide benefits to employees who retired after August 1, 2011, up to a maximum monthly premium of \$175. The plan is not funded.

Accumulated postretirement benefit obligation as of May 31, 2021, is:

Retired participants	\$ 3,456,600
Plan assets at fair value	<u>-</u>
Accumulated postretirement benefit obligation in excess of plan assets	<u>\$ 3,456,600</u>

Net periodic postretirement benefit cost for the year ended May 31, 2021, includes:

Interest cost	\$ 72,168
Loss to the extent recognized	32,084
Amortization of unrecognized prior service cost	<u>(34,155)</u>
	<u>\$ 70,097</u>

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

11. POST-RETIREMENT BENEFITS OBLIGATION, continued:

Accumulated postretirement benefit obligation as of May 31, 2020, is:

Retired participants	\$ 3,348,000
Plan assets at fair value	-
	-
Accumulated postretirement benefit obligation in excess of plan assets	\$ 3,348,000

Net periodic postretirement benefit cost for the year ended May 31, 2020, includes:

Interest cost	\$ 102,224
Loss to the extent recognized	13,020
Amortization of unrecognized prior service cost	(34,156)
	\$ 81,088

During the years ended May 31, 2021 and 2020, the University contributed and paid benefits totaling \$206,502 and \$222,183 respectively.

For measurement purposes, the following assumptions have been used to determine benefit obligations as of May 31, 2021 and 2020:

	2021	2020
Discount rate	2.39%	2.24%
Expected long-term health care cost increase:		
Initial rate–Pre-65 (medical/rx)	7.70%/7.30%	6.81%/7.22%
Initial rate–Post-65 (medical/rx)	3.90%/7.00%	3.2%/6.69%
Ultimate rate–Pre-65 (medical/rx)	4.40%/4.90%	4.75%/5.25%
Ultimate rate–Post-65 (medical/rx)	3.90%/4.90%	3.2%/5.25%
Time to ultimate rate	8 years	7 years
Weighted average life expectancy-inactive participants	10.2 years	11.4 years

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

11. POST-RETIREMENT BENEFITS OBLIGATION, continued:

The following is a schedule of estimated benefit payments expected to be paid over the next 10 years:

Year Ending May 31,

2022	\$	284,947
2023		281,742
2024		278,575
2025		274,017
2026		269,020
2027-2031		1,186,058
	\$	2,574,359

12. NET ASSETS:

Net assets with donor restrictions:

	<u>May 31,</u>	
	<u>2021</u>	<u>2020</u>
Purpose restrictions:		
Held by University:		
Scholarships	\$ 11,867,168	\$ 10,616,684
Capital projects	12,718,411	9,594,393
Educational programs	1,901,140	1,406,797
Other	957,275	969,852
	27,443,994	22,587,726
Held by WatersEdge for investment:		
Scholarships	16,594,915	7,435,620
Educational programs	1,307,345	424,776
Faculty positions and development	2,992,931	877,383
Plant maintenance and improvements	1,136,442	487,358
Other	2,457,908	416,485
	24,489,541	9,641,622
Time restrictions:		
Future interest in remainder interests held by WatersEdge	204,373	161,076
Total net assets restricted by time or purpose	52,137,908	32,390,424

(continued)

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

12. NET ASSETS, continued:

Net assets with donor restrictions, continued:

	May 31,	
	2021	2020
Perpetual in nature:		
Held by University for student loan programs and scholarships	199,477	221,024
Held by the WatersEdge for investment:		
Scholarships	39,754,200	39,550,104
Faculty positions and development	9,590,145	9,549,938
Educational programs	3,306,537	2,609,978
Plant maintenance and improvement	969,475	969,475
Other	2,523,984	2,515,668
	56,144,341	55,195,163
Held by the WatersEdge as beneficial interest:		
Scholarships	26,369,395	21,118,275
Undesignated	17,248,517	14,670,625
Faculty positions and development	6,976,675	5,962,249
Educational programs	6,541,235	5,301,745
Other	1,233,022	1,002,360
	58,368,844	48,055,254
Held by others as beneficial interest:		
Scholarships	3,316,682	3,018,463
Lectureships, educational programs and faculty positions	561,394	463,364
Undesignated	247,168	204,172
	4,125,244	3,685,999
Future interest in remainder interests held by WatersEdge that are perpetual in nature	1,560,365	1,313,243
Total net assets perpetual in nature	120,398,271	108,470,683
Total net assets with donor restrictions	\$ 172,536,179	\$ 140,861,107



# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

13. NET TUITION AND FEES:

Net tuition and fees consist of the following:

	Year Ended May 31,	
	2021	2020
Tuition	\$ 44,464,941	\$ 45,266,682
Fees	5,810,534	6,056,073
Gross tuition and fees	50,275,475	51,322,755
Less scholarships funded from operations	(25,691,106)	(26,171,824)
Less scholarships funded by endowment income	(3,565,647)	(3,359,310)
	\$ 21,018,722	\$ 21,791,621

14. TULSA ROYALTIES COMPANY:

The value of the mineral interests held by the Company are \$8,723,430 and \$7,678,842, respectively, as of May 31, 2021 and 2020, and are included in investments with the other mineral interests held by the University. Royalties earned by the Company and included in the University's consolidated financial statements were \$1,605,250 and \$1,619,250, respectively, for the years ended May 31, 2021 and 2020. These amounts are reported as operating revenue with donor restrictions in accordance with the original donor's intent that the funds be used for specified purposes.

15. INVESTMENT AND ENDOWMENT INCOME:

Investment and endowment income consists primarily of interest, dividends, gains, and appreciation (depreciation) from funds held by others, excluding changes in the value of beneficial interests.

The following is the composition of investment and endowment income:

	Year Ended May 31,	
	2021	2020
Unrealized/realized gains (losses) on investments	\$ 20,515,076	\$ (5,641,676)
Distributions from funds held by others	3,740,955	3,476,688
Distributions from beneficial interests	2,390,866	2,358,195
Interest, dividends, and other	529,332	332,589
Mineral income	818,326	369,193
	\$ 27,994,555	\$ 894,989

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 16. FUNCTIONAL ALLOCATION OF EXPENSE:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation and amortization, interest, the president's office, media production, information technology, and facilities operations and maintenance. Depreciation is allocated base on square footage and interest is allocated based on usage of space related to the debt. Costs of other categories were allocated on estimates of time and effort.

	Year Ended May 31, 2021						2021 Total Expense
	Program Activities:			Supporting Activities:			
	Educational Activities	Student Services	Auxiliaries	Administrative Support	Operation & Maintenance	Fundraising	
Salaries and wages	\$ 9,395,306	\$ 4,058,331	\$ 543,322	\$ 2,568,511	\$ 918,770	\$ 516,036	\$ 18,000,276
Employee benefits	2,211,117	907,824	83,158	2,016,591	249,534	100,707	5,568,931
Services, supplies, and other	1,231,057	3,595,487	3,016,349	2,700,194	326,865	335,366	11,205,318
Emergency grant aid to students*	-	984,832	-	-	-	-	984,832
Occupancy and maintenance	994,214	558,301	1,465,547	80,352	43,919	13,629	3,155,962
Depreciation	1,338,467	748,425	1,800,725	83,559	63,200	19,612	4,053,988
Interest	48,106	120,916	671,376	919	58,794	-	900,111
	15,218,267	10,974,116	7,580,477	7,450,126	1,661,082	985,350	43,869,418
Facilities operation and maintenance	548,424	306,660	737,830	60,133	(1,661,082)	8,035	-
Total expenses	\$ 15,766,691	\$ 11,280,776	\$ 8,318,307	\$ 7,510,259	\$ -	\$ 993,385	\$ 43,869,418

\*Emergency grant aid to students includes student scholarships funded by HEERF funding in the amount of \$984,832.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

16. FUNCTIONAL ALLOCATION OF EXPENSE, continued:

	Year Ended May 31, 2020						2020 Total Expense
	Program Activities:			Supporting Activities:			
	Educational Activities	Student Services	Auxiliaries	Administrative Support	Operation & Maintenance	Fundraising	
Salaries and wages	\$ 9,625,348	\$ 4,013,533	\$ 465,749	\$ 2,483,031	\$ 897,951	\$ 536,601	\$ 18,022,213
Employee benefits	2,196,107	842,548	75,315	2,285,967	254,635	111,746	5,766,318
Services, supplies, and other	1,923,449	3,579,745	2,642,639	2,250,368	336,626	599,888	11,332,715
Emergency grant aid to students*	-	949,306	-	-	-	-	949,306
Occupancy and maintenance	873,691	644,011	1,439,504	47,782	39,109	12,136	3,056,233
Depreciation	1,313,612	734,527	1,763,641	82,007	62,026	19,247	3,975,060
Interest	55,476	137,053	708,903	3,886	62,067	-	967,385
	15,987,683	10,900,723	7,095,751	7,153,041	1,652,414	1,279,618	44,069,230
Facilities operation and maintenance	546,062	305,339	733,138	59,874	(1,652,414)	8,001	-
Total expenses	\$ 16,533,745	\$ 11,206,062	\$ 7,828,889	\$ 7,212,915	\$ -	\$ 1,287,619	\$ 44,069,230

\*Emergency grant aid to students includes student scholarships funded by HEERF funding in the amount of \$949,306.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

### 17. RETIREMENT PLANS:

Pension Plan: the University provides a defined contribution plan (the Plan) that covers all of its full-time employees. Under the Plan, the University matches an employee's contribution up to 7.5% of an employee's salary. Employee contributions are voluntary. Total pension contributions for the years ended May 31, 2021 and 2020, were approximately \$795,000 and \$796,000 respectively.

### 18. COMMITMENTS AND CONTINGENCIES:

Activity related to student financial assistance programs is subject to audit both by independent certified public accountants and by representatives of the administering agencies regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties, or the discontinuation of eligibility for participation. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position or results of activities of the University.

### 19. RISKS AND UNCERTAINTIES:

In March 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. Campus housing was re-opened for the fall 2020 semester, but many services & activities across campus remained curtailed through the end of 2020 calendar year. This resulted in a loss of auxiliary revenue of approximately \$683,000. Management is carefully monitoring the situation and evaluating options as circumstances evolve. The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the University for future periods.

The University received a Paycheck Protection Program (PPP) loan in the amount of \$4,370,400 funded by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee head count, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following receipt of the funds. Substantially all of the conditions were met by May 31, 2020, and \$3,699,711 was recognized as a contribution without donor restrictions in the consolidated statement of activities for the year ended May 31, 2020. The University received formal notification of loan forgiveness from the SBA on June 8, 2021. The remaining balance of the loan, totaling \$670,689, was recognized as a contribution without donor restrictions in the consolidated statement of activities as of May 31, 2021.

# OKLAHOMA BAPTIST UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2021 and 2020

19. RISKS AND UNCERTAINTIES, continued:

Additionally, the University was the recipient of funding under the CARES Act for the Higher Education Emergency Relief Fund (HEERF). The University was allocated approximately \$967,000 to provide emergency grants to students during the year ended May 31, 2021. The University spent the entirety of these funds during the fiscal year. The University also spent the remainder portion of the amounts awarded but not previously spent during the year ended May 31, 2020. All amounts are included in contributions and grants without donor restrictions on the consolidated statements of activities. In addition, the University received approximately \$2.1 million in funding to assist with foregone revenue resulting from the closure of campus housing due to the pandemic. As of May 31, 2021, the University recognized the entire amount as revenue based on eligible expenses that were incurred. HEERF grants related to institutional assistance were included in grant aid for students on the consolidated statement of activities.

During the year ended May 31, 2020, the University was allocated approximately \$967,000 to provide emergency grants to students under HEERF. As of May 31, 2020, approximately \$949,000 of grants had been awarded to students and were included in contributions and grants without donor restrictions on the consolidated statements of activities. In addition, the University received approximately \$967,000 of funding to assist with foregone revenue resulting from the closure of campus housing as a result of the pandemic. As of May 31, 2020, the University recognized as revenue approximately \$949,000 based on eligible expenses that were incurred. The remainder of the revenue was recognized in the year ended May 31, 2021. HEERF grants related to institutional assistance were included in grant aid for students on the consolidated statements of activities.

20. SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 12, 2021, which is the date the consolidated financial statements were available to be issued.