

Oklahoma City University

Audited Financial Report
June 30, 2016

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Independent Auditor's Report

RSM US LLP

To the Board of Trustees
Oklahoma City University

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma City University (the University), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma City University as of June 30, 2016 and 2015, 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.

RSM US LLP

Oklahoma City, Oklahoma
October 24, 2016

Oklahoma City University

Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 3,037,842	\$ 6,234,307
Receivables:		
Student, less allowance for uncollectible accounts of \$550,000 in 2016 and 2015	2,215,326	2,196,264
Federal loan reimbursements	2,254,216	-
Contributions, net	3,742,777	6,692,855
Accrued interest and other	313,210	275,437
Student notes receivable, less allowance for uncollectible notes 2016 \$89,900; 2015 \$86,900	4,543,782	4,432,078
Prepaid expenses, deposits and other assets	1,501,057	1,404,761
Investments:		
Securities	61,738,208	62,584,229
Investments held in charitable remainder annuity trusts	2,950,234	3,748,565
Real estate - held for sale	308,386	-
Beneficial interest in trusts held by others	29,662,522	29,914,909
Note receivable, related party	3,601,113	3,659,601
Property, plant and equipment, net	159,317,383	161,565,267
Total assets	\$ 275,186,056	\$ 282,708,273
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities:		
Salaries, wages and benefits	\$ 3,263,569	\$ 4,041,066
Other	2,286,504	2,437,682
Notes payable	3,000,000	-
Deferred revenue	3,930,036	4,116,399
Deposits held in custody for others	684,574	404,608
Annuities payable	2,458,714	3,166,546
Capital lease obligations	12,372	161,987
Interest rate swap agreements	19,691,601	15,078,071
Bonds payable, net	52,380,948	53,530,280
Advances from federal government for student loans	3,905,000	3,788,000
Total liabilities	91,613,318	86,724,639
Net assets:		
Unrestricted	75,997,248	82,911,864
Temporarily restricted	40,099,481	47,289,226
Permanently restricted	67,476,009	65,782,544
Total net assets	183,572,738	195,983,634
Total liabilities and net assets	\$ 275,186,056	\$ 282,708,273

See notes to financial statements.

Oklahoma City University

Statements of Activities
Year Ended June 30, 2016 (with Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
Revenues, gains and other support:					
Student tuition and fees	\$ 79,732,235	\$ -	\$ -	\$ 79,732,235	\$ 79,910,598
Less student aid	(28,866,166)	-	-	(28,866,166)	(29,359,997)
Net student tuition and fees	50,866,069	-	-	50,866,069	50,550,601
Federal and state grants and contracts	-	408,163	-	408,163	424,772
Private gifts and grants, including contributions receivable	1,173,485	2,548,871	1,736,450	5,458,806	11,096,565
Changes in value of split interest agreements	-	(132,694)	-	(132,694)	(46,900)
Changes in the fair value of interest rate swap agreement	(4,613,530)	-	-	(4,613,530)	(843,796)
Sales and services of educational departments	543,958	29,523	-	573,481	880,509
Sales and services of auxiliary, net of student aid of \$783,502	6,580,900	-	-	6,580,900	6,954,394
Investment income (loss), net	(1,552,898)	1,345,614	5,514	(201,770)	1,822,935
Other income	1,617,623	704,011	-	2,321,634	2,985,084
	54,615,607	4,903,488	1,741,964	61,261,059	73,824,164
Changes in restrictions by donors, reclassifications	48,499	-	(48,499)	-	-
Net assets released from restrictions	12,093,233	(12,093,233)	-	-	-
Total revenues, gains and other support	66,757,339	(7,189,745)	1,693,465	61,261,059	73,824,164
Expenses:					
Educational and general:					
Instruction	38,270,537	-	-	38,270,537	37,461,095
Academic support	7,788,232	-	-	7,788,232	8,046,178
Student services	12,370,642	-	-	12,370,642	12,241,655
Institutional support	7,704,989	-	-	7,704,989	9,245,538
Total educational and general	66,134,400	-	-	66,134,400	66,994,466
Auxiliary enterprises	7,537,555	-	-	7,537,555	7,294,262
Total expenses	73,671,955	-	-	73,671,955	74,288,728
Change in net assets	(6,914,616)	(7,189,745)	1,693,465	(12,410,896)	(464,564)
Net assets:					
Beginning	82,911,864	47,289,226	65,782,544	195,983,634	196,448,198
Ending	\$ 75,997,248	\$ 40,099,481	\$ 67,476,009	\$ 183,572,738	\$ 195,983,634

See notes to financial statements.

Oklahoma City University

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015
Revenues, gains and other support:				
Student tuition and fees	\$ 79,910,598	\$ -	\$ -	\$ 79,910,598
Less student aid	(29,359,997)	-	-	(29,359,997)
Net student tuition and fees	50,550,601	-	-	50,550,601
Federal and state grants and contracts	-	424,772	-	424,772
Private gifts and grants, including contributions receivable	1,367,639	7,792,382	1,936,544	11,096,565
Changes in value of split interest agreements	-	(46,900)	-	(46,900)
Changes in the fair value of interest rate swap agreement	(843,796)	-	-	(843,796)
Sales and services of educational departments	851,015	29,494	-	880,509
Sales and services of auxiliary, net of student aid of \$817,908	6,954,394	-	-	6,954,394
Investment income, net	982,677	816,864	23,394	1,822,935
Other income	2,089,778	895,306	-	2,985,084
	61,952,308	9,911,918	1,959,938	73,824,164
Changes in restrictions by donors, reclassifications	-	24,600	(24,600)	-
Net assets released from restrictions	8,646,823	(8,646,823)	-	-
Total revenues, gains and other support	70,599,131	1,289,695	1,935,338	73,824,164
Expenses:				
Educational and general:				
Instruction	37,461,095	-	-	37,461,095
Academic support	8,046,178	-	-	8,046,178
Student services	12,241,655	-	-	12,241,655
Institutional support	9,245,538	-	-	9,245,538
Total educational and general	66,994,466	-	-	66,994,466
Auxiliary enterprises	7,294,262	-	-	7,294,262
Total expenses	74,288,728	-	-	74,288,728
Change in net assets	(3,689,597)	1,289,695	1,935,338	(464,564)
Net assets:				
Beginning	86,601,461	45,999,531	63,847,206	196,448,198
Ending	\$ 82,911,864	\$ 47,289,226	\$ 65,782,544	\$ 195,983,634

See notes to financial statements.

Oklahoma City University

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (12,410,896)	\$ (464,564)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts restricted for capital expenditures	(262,493)	(4,785,196)
Gifts for permanently restricted purposes	(1,736,450)	(1,936,544)
Investment (income) loss for permanently restricted purposes	(5,514)	(23,394)
Advances for student notes receivable	(851,560)	(705,332)
Collections on student notes receivable	739,856	944,996
Net realized and unrealized investment gains	(998,335)	(1,149,014)
Depreciation and amortization	6,573,447	6,745,843
Unrealized loss on interest rate swap agreement	4,613,530	843,796
Gain (loss) on sale of property and equipment	(17,823)	172,606
Bad debt expense	664,458	1,656,942
Changes in operating assets and liabilities that provided by (used in) cash:		
Student accounts receivable	(600,665)	(261,820)
Federal loan reimbursements	(2,254,216)	356,695
Prepaid expenses, deposits, and other assets	(96,296)	601,459
Contributions receivable	2,867,223	(257,612)
Accrued interest and other receivables	(37,773)	(81,939)
Accounts payable and accrued liabilities	(928,675)	1,416,859
Annuities payable	(707,832)	(630,721)
Deferred revenue	(186,363)	(481,156)
Deposits held in custody for others	279,966	(516,485)
Advances from federal government for student loans	117,000	-
Agency transaction receipts	3,070,215	2,940,449
Agency transaction disbursements	(3,070,215)	(2,940,449)
Net cash provided by (used in) operating activities	(5,239,411)	1,445,419
Cash flows from investing activities:		
Purchases of investments	(2,019,110)	(763,219)
Proceeds from sales of investments	2,714,453	1,236,582
Distributions from beneficial interest in assets held by others	2,199,731	1,432,061
Note receivable advances to related party	58,488	(3,634,601)
Capital expenditures	(4,528,241)	(5,217,436)
Net cash used in investing activities	(1,574,679)	(6,946,613)

(Continued)

Oklahoma City University

Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from financing activities:		
Gifts collected for capital expenditures	\$ 262,493	\$ 5,986,831
Gifts collected for permanently restricted purposes	1,736,450	1,784,194
Investment income for permanently restricted purposes	5,514	23,394
Advances on notes payable	6,000,000	2,000,000
Payments on notes payable	(3,000,000)	(4,500,000)
Payments on bonds payable and capital lease obligations	(1,386,832)	(1,307,136)
Net cash provided by financing activities	3,617,625	3,987,283
Net change in cash and cash equivalents	(3,196,465)	(1,513,911)
Cash and cash equivalents:		
Beginning	6,234,307	7,748,218
Ending	<u>\$ 3,037,842</u>	<u>\$ 6,234,307</u>
Supplemental data:		
Noncash investing and financing activities:		
Gifts of beneficial interest in trusts held by others	<u>\$ 42,275</u>	<u>\$ 163,189</u>
Interest paid	<u>\$ 3,911,915</u>	<u>\$ 4,040,800</u>

See notes to financial statements.

Oklahoma City University

Notes to Financial Statements

Note 1. Significant Accounting Policies

Nature of operations: Oklahoma City University (the University) is a private, not-for-profit institution of higher education with its campus located in Oklahoma City, Oklahoma. The University is accredited by the North Central Association of Colleges and Schools.

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting. The University follows the accounting and reporting practices for private colleges and universities. Accordingly, net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed restrictions. Uses of certain unrestricted net assets are committed as matching funds under student loan programs of the federal government. Unrestricted net assets may be designated for specific purposes by the University.

Temporarily restricted net assets: Net assets subject to donor-imposed restrictions that may or will be met either by actions of the University and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The amount of net assets identified as released from donor restrictions includes any amounts released whether received in the current year or prior periods.

Permanently restricted net assets: Net assets subject to donor-imposed permanent restrictions. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for specific or general purposes.

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 with original maturities of three months or less. At June 30, 2016, the University had certain concentrations of credit risk with 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 believes that credit risk related to the balances is minimal.

Student accounts receivable: Student accounts receivable consist primarily of tuition, fees and auxiliary charges. Management considers various factors in estimating the allowance for doubtful accounts, including the length of time from the initial billing that the receivables have been outstanding, the enrollment status of the students with outstanding receivables, and the University's collection history. Receivables are normally considered to be delinquent when they become more than 90 days outstanding from the date they were originally billed. A receivable is charged against the allowance when management has determined that all methods for collection of the receivable have been exhausted.

Federal loan reimbursements receivable: Federal loan reimbursements receivable balances are comprised of amounts due from the federal government for federal student loans the University has disbursed on behalf of the federal government, but not yet received.

Student notes receivable: Student notes receivable consist primarily of loans made to students under U.S. Government loan programs. The loans are stated at net realizable value in the accompanying statements of financial position.

Investments: All investments received by gift or bequest are recorded at fair value in the statements of financial position on the date received. If fair value is not determinable on the date received, the asset received by gift or bequest is recorded at nominal value.

Oklahoma City University

Notes to Financial Statements

Note 1. Significant Accounting Policies (Continued)

Investments in securities (i.e. common stocks, pooled investments, bonds, and other securities) are marked to market at year end. Investments held in charitable remainder trusts are carried at fair value based on the underlying trust assets.

Beneficial interest in trusts held by others: The University's interests in beneficial trusts held by others are valued in accordance with the related trusts' policies for valuing the trusts' underlying assets, which may vary by trust.

Property, plant and equipment: Land, buildings and improvements, equipment, computers, and automobiles are stated at cost when purchased by the University or at fair value at date of receipt by gift when acquired by donation. The University's capitalization policy for furniture, fixtures and equipment includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Assets are depreciated on the straight-line method over the estimated useful lives of the respective asset.

Estimated service lives for purposes of depreciation are as follows:

	<u>Years</u>
Buildings	40 to 70
Improvements	40
Steinway pianos	50
Equipment, including library books	10 to 20
Computers and automobiles	4

The University reports gifts of property, plant and equipment as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service or cash is used for construction in progress.

Investment revenue recognition: Investment income includes dividends, interest, realized and unrealized gains, royalties, and similar items and is recognized as revenue in the period in which it is earned. The amounts are reported as an increase in unrestricted net assets unless otherwise restricted by the donor.

Unrestricted gains and losses on investments are recorded as increases or decreases in unrestricted net assets. Unrealized gains and losses are recorded as temporarily restricted and permanently restricted net assets in accordance with donor specifications based on the Accounting Standards Codification's (ASC) guidance as described in guidance (Note 16).

Generally, losses on the investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets but can be restored through subsequent investment gains.

Note 1. Significant Accounting Policies (Continued)

Contributions and promises to give: Contributions are recorded at fair value on the date of the gift. Unconditional promises to give are recorded net of an allowance for doubtful receivables estimated based on such factors for the University as prior collection history, types of contributions and the nature of the fund-raising activity. Amounts due in more than one year are recorded at net discounted cash flow using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. 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 conditions are substantially met.

Deferred revenue: Deferred revenue consists of funds collected prior to providing service to the payor, which includes tuition for partially complete and future semesters, contract revenue received in advance, and other advance payments. Deferred revenue also includes the estimated incremental costs of non-refundable tuition credits provided to individuals and businesses in connection with transactions with the University.

Tuition and auxiliary revenue: Tuition revenue is recognized as revenue in the period in which it is earned. Tuition and room and board for future periods are recognized as revenue at the beginning of the semester in the period to which the amount relates and when the revenue is earned. Tuition revenue is reported as the gross revenue less the related discount. Sales and services of auxiliary are reported as gross revenue less related discounts when goods or services are provided. The University provides student aid to students meeting certain criteria.

Income tax status: The University is an organization exempt from federal income tax pursuant to Section 501 (a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) of the Code. Provision has been made, where material, for any taxes due on unrelated business income.

Annuities payable: Annuities payable are agreements between donors and the University whereby the donor makes a contribution to the University and the University agrees to pay an agreed upon amount for a specified period of time to the donor. Assets are valued at fair value, and liabilities are stated at present value, using an appropriate discount rate commensurate with the risks involved and Internal Revenue Service life expectancy tables.

Split interest agreements: The University receives gifts of future interests in certain trusts. Under the related agreements, the donors retain the rights to periodic distributions from the trusts for specified terms. At the end of the trusts' terms, the assets of the trust become the property of the University. Assets received under these agreements are recorded at fair value in the appropriate net asset category and included with investments. Related contributions per the agreements are recognized as contribution revenue and are equal to the present value of future benefits to be received by the University over the term of the agreements. No contribution revenue was recognized under split interest agreements for the years ended June 30, 2016 and 2015. Liabilities totaling approximately \$2,015,000 and \$2,703,000 as of June 30, 2016 and 2015, respectively, have been established for those split interest agreements for which the University is the trustee and is included in the statements of financial position with annuities payable. During the term of these agreements, changes in the value of the split interest agreements are recognized in the statements of activities and changes in net assets based on accretion of the discounted amount of the contribution, and reevaluations of the expected future benefits (payments) to be received (paid) by the University (beneficiaries), based on changes in life expectancy and other assumptions. A discount rate of 6 percent was used in these calculations at the dates of the contributions.

Oklahoma City University

Notes to Financial Statements

Note 1. Significant Accounting Policies (Continued)

Advances from federal government for student loans: Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collection. These funds are ultimately refundable to the government and are recorded as liabilities. Activity of the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs are not reflected in the financial statements, other than agency transactions receipts/disbursements in the statements of cash flows, as the transactions are considered to be agency transactions.

Interest rate swap agreement: The University recognizes its interest rate swap agreement, which is a derivative financial instrument, as either an asset or liability in the statements of financial position and measures the agreement at fair value. The University is party to an interest rate swap in order to manage fluctuations in cash flows resulting from variability in interest payments due to changes in interest rates. Changes in the fair value of the interest rate swap are recorded as a separate line item within total revenues, gains, and other support.

Advertising costs: The University expenses the costs of advertising as incurred. For the years ended June 30, 2016 and 2015, advertising expense was approximately \$683,000 and \$356,000, respectively.

Reclassifications: Certain items on the statement of financial position and cash flows as of and for the year ended June 30, 2015, have been reclassified, with no effect on total net assets or change in net assets, to be consistent with the presentation for the year ended June 30, 2016.

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs that are derived principally from or corroborated by observable market data; and

Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Financial assets subject to fair value measurement disclosure requirements include investments in securities, investments held in charitable remainder annuity trusts, real estate, and beneficial interest in trusts held by others. Financial liabilities subject to fair value measurement disclosure requirements include interest rate swap agreements.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recent accounting pronouncements: The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The University early adopted ASU No. 2015-07 and retrospectively applied to the prior year. The amendments in ASU No. 2015-07 removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (see Note 15).

Oklahoma City University

Notes to Financial Statements

Note 1. Significant Accounting Policies (Continued)

The FASB has issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in ASU No. 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The University early adopted ASU No. 2015-03 and as a result reclassified its deferred costs from an asset to a reduction of bonds payable in the statement of financial position (see Note 7).

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The standard is effective for not-for-profit organizations for periods beginning after December 15, 2017. Early application of the amendments is permitted. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Among other things, in the amendments in ASU No. 2016-02, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term at the lease commencement date. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. This standard will be implemented in the period ending June 30, 2021. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

Subsequent events: The University has evaluated subsequent events through October 24, 2016, which is the date of issuance. See Notes 5 and 14 for discussion of subsequent event matters.

Note 2. Contributions Receivable

Contributions receivable are discounted commensurate with the risks involved to state amounts at estimated present value. Total discounts are approximately \$274,000 and \$272,000 at June 30, 2016 and 2015, respectively. Management has provided an allowance for uncollectible contributions receivable of approximately \$48,000 and \$23,000 at June 30, 2016 and 2015, respectively. Additionally, management has written off approximately \$83,000 of contributions for the year ending June 30, 2016, which were determined to be uncollectible. Net contributions receivable along with the period of expected collection are as follows at June 30:

	2016	2015
Due in less than one year	\$ 840,124	\$ 3,830,245
Due in one to five years	2,783,863	2,756,843
Due in more than five years	118,790	105,767
	<u>\$ 3,742,777</u>	<u>\$ 6,692,855</u>

Oklahoma City University

Notes to Financial Statements

Note 3. Student Notes Receivable

Federal Perkins Loan Program: Student loans under the Federal Perkins Loan Program were approximately \$4,544,000 and \$4,399,000 at June 30, 2016 and 2015, respectively. Perkins stipulates that the federal government provide 2/3rds of the total funds available with the University providing the remaining 1/3rd. The total portion funded by the federal government, which includes cash balances maintained by the University as well as outstanding student loans, is shown as advances from federal government for student loans in the accompanying statements of financial position. At June 30, 2016 and 2015, student loans under the Federal Perkins Loan Program are reduced by an allowance for uncollectible notes of approximately \$90,000 and \$87,000, respectively. Management considers various factors in estimating the allowance for uncollectible notes, including the amounts of past due balances, the University's collection history, and amounts that will be reimbursed by the U.S. government. The aging of the student loan portfolio by classes of loans as of June 30, 2016 and 2015, is presented as follows:

	2016						Total
	Not in Repayment	Current	Less Than 240 Days Past Due	Greater Than 240 Days, but Less Than 2 Years Past Due	Greater Than 2 Years, but Less Than 5 Years Past Due	Greater Than 5 Years Past Due	
Student loan receivables	\$ 2,078,288	\$ 1,407,401	\$ 222,185	\$ 149,722	\$ 227,912	\$ 548,174	\$ 4,633,682
As a percentage of total loan portfolio	44.85%	30.37%	4.79%	3.23%	4.92%	11.83%	100.00%
	2015						
Student loan receivables	\$ 2,060,060	\$ 1,264,926	\$ 271,580	\$ 178,664	\$ 230,474	\$ 513,274	\$ 4,518,978
As a percentage of total loan portfolio	45.60%	27.99%	6.01%	3.95%	5.10%	11.36%	100.00%

For student loans, the credit quality indicator is performance determined by delinquency status. Delinquency status is updated monthly by the University. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The University is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

Note 4. Beneficial Interest in Trusts Held by Others

The University has a beneficial interest in assets held in trusts by the Oklahoma United Methodist Foundation (OUMF). These assets are to be held in perpetuity by OUMF for the benefit of the University. The University receives distributions from the income earned by the trusts, which is generally restricted for scholarship purposes. During 2016 and 2015, the University received approximately \$2,183,000 and \$1,432,000, respectively, related to these trusts. The beneficial interest in trusts is recorded at the fair value of the underlying assets.

The University recognizes transfers it previously made to the Oklahoma City Community Foundation, Inc. (OCCF), which the University has specified itself as the beneficiary of the funds. In connection with the University's recognition of these transfers, the statement of financial position as of June 30, 2016 and 2015, includes the beneficial interest in assets held by OCCF of approximately \$630,000 and \$345,000, respectively. Annually, distributions from the funds are paid to the University according to OCCF's spending policy. OCCF maintains variance power over these funds. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community.

Oklahoma City University

Notes to Financial Statements

Note 4. Beneficial Interest in Trusts Held by Others (Continued)

OCCF also maintains legal ownership of the funds. However, U.S. GAAP requires the University to reflect its beneficial interest in these assets in its financial statements. In addition to the funds discussed above, OCCF maintains other funds that have been contributed by various donors to OCCF for the benefit of the University. These funds are not included as assets of the University and they have no remainder interest in the corpus of these funds. The earnings from these funds are paid to the University each year. For the years ended June 30, 2016 and 2015, the University received approximately \$192,000 and \$176,000, respectively, from the funds. At June 30, 2016 and 2015, the fair value of the funds was approximately \$3,752,000 and \$3,824,000, respectively.

Note 5. Property, Plant and Equipment and Subsequent Event

Property, plant and equipment are summarized as follows:

	2016	2015
Land	\$ 6,365,828	\$ 6,365,828
Building	156,484,136	156,895,088
Improvements	33,743,505	30,798,967
Steinway pianos	2,198,880	2,198,880
Equipment, including library books	45,953,967	45,289,633
Computers and automobiles	1,747,553	1,641,168
Construction in progress	392,682	308,497
	<u>246,886,551</u>	<u>243,498,061</u>
Less accumulated depreciation	87,569,168	81,932,794
Net property, plant and equipment	<u>\$ 159,317,383</u>	<u>\$ 161,565,267</u>

For the years ended June 30, 2016 and 2015, depreciation expense was approximately \$6,486,000 and \$6,646,000, respectively.

At June 30, 2016, the University has certain property classified as held for sale, carried at the lower of cost or fair value. Subsequent to year end, the property was sold for approximately \$1,021,000.

Note 6. Notes Payable

The University has an unsecured commercial line of credit with a financial institution. The agreement allows for borrowing up to \$3,000,000 and bears interest at the Wall Street Journal Prime Rate, subject to an interest rate floor of 5.75 percent (effective rate of 5.75 percent at June 30, 2016). The agreement matured December 31, 2015; however, the University renewed the agreement through December 15, 2016, at the same borrowing limit and interest rate. At June 30, 2016 and 2015, the amount drawn down was \$3,000,000 and \$-0-, respectively.

In April 2012, the University entered into a line of credit agreement with The Oklahoma United Methodist Foundation (OUMF). The agreement allowed for borrowings up to \$5,000,000 and accrued interest at 1.0 percent above OUMF's Short Term Fund Rate. The agreement matured December 31, 2015; however, the University renewed the agreement through December 31, 2017, at the same borrowing limit and interest rate. The use of the loan proceeds is restricted to satisfy collateral obligations with JP Morgan Chase, N.A. The agreement is secured by certain investments in the OCU Endowment Fund held at OUMF. At June 30, 2016 and 2015, there was no amount drawn down on the note payable.

Oklahoma City University

Notes to Financial Statements

Note 7. Bonds Payable

In November 2010, the University entered into an agreement with the Oklahoma Industries Authority (the Authority) to issue Series 2010A Revenue Notes (the 2010 Notes), which are secured by a pledge of revenues and other income of the University and a mortgage on the University's real property and related improvements/fixtures. The 2010 Notes were issued for the purposes of (a) redeeming the 2005 and 2006 Series Revenue Bonds, which totaled approximately \$58,150,000, and (b) paying the costs of issuance of the 2010 Notes.

The 2010 Notes are held by six banks in amounts ranging from \$5,000,000 to \$20,500,000. The 2010 Notes are fully amortizing with monthly principal payments through November 30, 2035. The interest rate is paid monthly and is calculated on a variable rate as 74 percent of one-month LIBOR plus a fixed spread of 2.553 percent (2.889 percent at June 30, 2016). The 2010 Notes also require an annual payment of 1/20th of 1 percent of the declining principal amount to the Authority. The six banks have an initial optional tender date in November 2017. Absent an event of tender, the 2010 Notes automatically renew under the same terms for succeeding 5 year periods until fully matured in 2035. As of June 30, 2016 and 2015, respectively, the outstanding principal balance of the 2010 Notes was approximately \$53,411,000 and \$54,648,000.

Specific incremental costs directly attributable to the various bond offerings are deferred and amortized, using the effective interest method, over the remaining life of the bonds. Due to the adoption of ASU 2015-03, deferred costs were reclassified and netted with bonds payable in the statements of financial position. Accumulated amortization aggregated approximately \$538,000 and \$450,000 at June 30, 2016 and 2015, respectively. Deferred costs at June 30, 2016 and 2015, totaled \$1,029,765 and \$1,117,650, respectively.

The University must meet quarterly and annual financial and operating covenants including liquidity tests, debt service coverage test and a loan to value ratio test. The bonds are collateralized by certain plant, property and equipment of the University.

The University has entered into an interest rate swap agreement related to the 2010 Notes (see Note 8).

At June 30, 2016, annual maturities of principal of the 2010 Notes, assuming no event of tender, are as follows:

Years ending June 30:	
2017	\$ 1,337,782
2018	1,435,009
2019	1,539,303
2020	1,641,670
2021	1,770,489
Thereafter	45,686,460
	<u>\$ 53,410,713</u>

Note 8. Interest Rate Swap Agreement

In November 2010, the University entered into an interest rate swap agreement with JP Morgan Chase, N.A. which terminated interest rate swaps related to the 2005 and 2006 Series Revenue Bonds and effectively converted the 2010 Notes variable interest rate into a fixed rate. The University did not enter into this agreement for any purpose other than interest cash flow purposes and does not speculate for investment purposes using interest rate swap agreements.

Oklahoma City University

Notes to Financial Statements

Note 8. Interest Rate Swap Agreement (Continued)

The terms of the interest rate swap agreement require the University to settle with the counterparty on a net basis for the difference between 74 percent of one-month LIBOR and a fixed rate of 4.332 percent. The swap expires November 2035. At June 30, 2016 and 2015, this interest rate swap agreement had a fair value of approximately \$19,692,000 and \$15,078,000, respectively, to the benefit of the counterparty. If the fair value of the swap agreement exceeds \$19,500,000, to the benefit of the counter-party, the University is required to post collateral to the counterparty for the difference between fair value and \$19,500,000. As of June 30, 2016 and 2015, the amount posted was \$610,000 and \$-0-, respectively.

Note 9. Leases

The University leases certain buildings, equipment, computers, and automobiles under non-cancelable operating leases and is a party to capital lease agreements (see Note 17 for a discussion of leasing agreements entered into for the University's Law School building). Assets leased under capital leases are included in property, plant and equipment at June 30 as follows:

	2016	2015
Assets	\$ 58,555	\$ 698,799
Less accumulated depreciation	46,844	675,377
	<u>\$ 11,711</u>	<u>\$ 23,422</u>

At June 30, 2016, annual future minimum lease payments under these leases together with the present value of the future net minimum lease payments under the capital lease obligations are as follows:

	Capital Leases	Operating Leases
Years ending June 30:		
2017	\$ 13,114	\$ 979,000
2018	-	977,000
2019	-	977,000
2020	-	1,400,000
2021	-	1,400,000
Thereafter	-	4,200,000
Total minimum lease payments	13,114	<u>\$ 9,933,000</u>
Less amount representing interest	742	
Present value of minimum lease payments	<u>\$ 12,372</u>	

Payments made on operating leases during fiscal years 2016 and 2015, were approximately \$4,154,000 and \$4,076,000, respectively.

Oklahoma City University

Notes to Financial Statements

Note 10. Restricted Net Assets

The University's restricted net assets are as follows at June 30:

	2016	2015
Temporarily restricted:		
Capital projects	\$ 11,686,802	\$ 13,882,494
Scholarships	22,930,488	24,577,253
Other	5,482,191	8,829,479
	<u>\$ 40,099,481</u>	<u>\$ 47,289,226</u>
Permanently restricted:		
Scholarships	\$ 46,782,534	\$ 44,554,681
Other	20,693,475	21,227,863
	<u>\$ 67,476,009</u>	<u>\$ 65,782,544</u>

Net assets were released by satisfying the purpose restriction or by passage of time, including \$2,708,491 and \$1,740,082 for capital expenditures for the years ending June 30, 2016 and 2015, respectively. During fiscal years 2016 and 2015, other reclassifications were made between net asset categories based on donor requests and availability of additional information.

Note 11. Retirement Plan

The University, through the Teachers Insurance Annuity Association (TIAA) and the College Retirement Equity Fund (CREF), provides an individual retirement plan for academic and nonacademic personnel. The University's policy is to contribute a percentage of the employee's base salary based on the contribution level made by the employee. The University's current contribution policy, which was effective in August 2010, matches the employees' contributions up to 5 percent. The University may cease matching contributions at its discretion.

The employer may contribute additional amounts within limits established by the Internal Revenue Service. The benefits payable by TIAA and CREF to a participant are dependent upon the sum of the contributions made by the participant and the University on their behalf and the earnings pertaining thereto. The University provides no guaranteed retirement benefits; therefore, the Plan is a defined contribution plan. The University contributed approximately \$1,125,000 and \$1,061,000 in 2016 and 2015, respectively.

Note 12. Federal Financial Awards

The United States government awards the University various monies restricted for student financial aid. The monies are awarded through three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG) and Federal Work Study (FWS). The University considers this financial aid as an integral part of its educational and general activities.

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.

Oklahoma City University

Notes to Financial Statements

Note 13. Student Financial Aid—Off-Balance Sheet Risk

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 governmental agencies.

The University participates in the Federal Direct Loan Program (the Program), which includes the Federal Stafford Loan Program, and Federal Plus Loans for Undergraduate and Graduate 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.

Note 14. Commitments, Contingencies and Subsequent Event

Litigation: The University is involved in various claims and lawsuits arising in the normal course of business but does not believe that the outcome of any of these matters will have a material adverse effect on the University's financial position. The University has included appropriate contingencies in the financial statements for such lawsuits.

On December 17, 2012, the University commenced an action seeking a declaration that the University does not owe a financial institution any money under a contract between the University and a development group, which the development group claimed to have assigned to the financial institution. The University sought (a) a declaration that a revenue share provision of, and amendment to, the contract, is not enforceable against the University; (b) a declaration that a settlement agreement among the University, the development group, and the financial institution is not enforceable against the University; and (c) repayment of money previously paid by the University under the revenue share provision of the contract. On July 27, 2016, in exchange for a full release from the financial institution and the development group, the University entered into an agreement with the financial institution to pay an amount immaterial with respect to the University's financial statements as a whole in full resolution of all potential claims between the parties.

Self-insurance: The University offers health, dental and vision plans (the Plan) for employees who wish to participate. The Plan is facilitated and administered by Aetna. The University collects premiums from participating employees and remits monthly, along with University contributions, to an account at UMB that was specifically created for paying Plan expenses. Aetna is responsible for all aspects of administration including enrollment changes, issuing eligibility cards, claims payment, and claims reporting. The University maintains control over the Plan design, including changes to the Plan.

During the years ended June 30, 2016 and 2015, the University expensed approximately \$2,221,000 and \$2,463,000, respectively, related to the Plan. The University has recorded a provision for incurred but not reported claims, which at June 30, 2016 and 2015, amounted to approximately \$92,000 and \$288,000, respectively.

The University has recorded an asset related to the funds on deposit with UMB to service claims and expenses, which at June 30, 2016 and 2015, amounted to approximately \$652,000 and \$361,000, respectively. The University replenishes their deposits with UMB on a monthly basis based on premiums collected from employees and the University match on premiums for the prior month.

Oklahoma City University

Notes to Financial Statements

Note 14. Commitments, Contingencies and Subsequent Event (Continued)

Loan commitment: As further discussed in Note 17, the University has committed to loan up to \$5,200,000 to OCU Law School Building Associations, LLC for continued renovation of the facility that the University has leased for the future site of its law school. As of June 30, 2016 and 2015, \$3,659,601 of this commitment has been funded, respectively, with no further draws expected. The balance of the loan at June 30, 2016 and 2015, was \$3,601,113 and \$3,659,601, respectively. The loan carries a fixed interest rate of 1.0 percent and requires interest only payments through December 31, 2019. Beginning January 1, 2020, the loan requires principal and interest payments for full amortization of the loan balance as of December 31, 2049.

Note 15. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each financial instrument:

Cash and cash equivalents, student receivables, federal loan reimbursements, accrued interest and other prepaid expenses, accounts payable and accrued liabilities, deposits held in custody for others, and notes payable: The carrying amounts approximate fair value due to their short maturity.

Contributions receivable: The fair value is determined by discounting the future cash flows of each instrument at a rate commensurate with the risks involved for both June 30, 2016 and 2015. Additionally, the University provides an allowance for contributions that are considered to be uncollectible. The carrying amount of contributions receivable approximates fair value.

Student notes receivable and advances from the federal government for student loans: It is not practicable to estimate the fair value since these instruments contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

Investments in securities and charitable remainder annuity trusts: The fair values of publicly traded securities and mutual funds are based on quoted market prices in active markets. Fair value of investments in pooled investment funds, government agency bonds, notes receivable, mineral interests, and other similar investments are estimated by the quoted market prices in non-active markets or determined by the fund manager or other third parties, as applicable. Fair values of other investments, including hedge fund investments and investments in closely-held corporations, are estimated based on current market conditions and other factors deemed relevant to the valuation as provided by the investment manager. Investments in securities and charitable remainder annuity trusts are carried at fair value in the accompanying financial statements.

Beneficial interest in trusts held by others: The fair values are based on the fair value of the investment assets held by the other entities as reported to the University. Beneficial interests in trusts held by others are carried at fair value in the accompanying financial statements. These assets are not redeemable by the University at stated net values.

Note receivable—related party: It is not practicable to estimate the fair value since the transaction was consummated between related parties.

Annuities payable: The fair value is determined by discounting the future cash flows of each annuity at a rate of 6 percent for both 2016 and 2015. The carrying amount of annuities payable approximates fair value.

Bonds payable: The fair value of bond issuances is based on carrying value as the bonds contain variable interest rates, which are consistent with terms the University could expect to receive in the current bond market.

Oklahoma City University

Notes to Financial Statements

Note 15. Fair Value of Financial Instruments (Continued)

Interest rate swap agreements: The fair value is determined by the counterparty financial institution using current market pricing models. Interest rate swap agreements are carried at fair value in the accompanying financial statements.

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy as of June 30, 2016 and 2015, are as follows:

	June 30, 2016			Total
	Level 1	Level 2	Level 3	
Investments, at fair value:				
Cash	\$ 911,368	\$ -	\$ -	\$ 911,368
Alternative investments:				
Assets held in OUMF Endowment Pool:				
Early secondaries private equity fund, Goldman Sachs	188,073	-	-	188,073
Investment in OCU Law Building Associates, LLC	-	-	954,001	954,001
Note receivable from OCU MNTC Investment Fund, LLC	-	-	1,850,000	1,850,000
Mineral interests	-	-	551,567	551,567
Minerals and other	-	-	1,042,449	1,042,449
	<u>1,099,441</u>	<u>-</u>	<u>4,398,017</u>	<u>5,497,458</u>
Investments measured at net asset value				
Early secondaries private equity fund, Goldman Sachs (a)				452,838
OUMF pooled investment funds (a)				<u>55,787,912</u>
Total investments at fair value				<u>61,738,208</u>
Beneficial interest in assets held by others (a)				<u>29,662,522</u>
Investments in charitable remainder annuity trusts:				
Cash and money market funds	99,858	-	-	99,858
Corporate and government obligations	-	437,377	-	437,377
Mutual funds	1,687,940	-	-	1,687,940
Common stock	725,059	-	-	725,059
Total investments in charitable remainder annuity trusts	<u>2,512,857</u>	<u>437,377</u>	<u>-</u>	<u>2,950,234</u>
Total assets carried at fair value	<u>\$ 3,612,298</u>	<u>\$ 437,377</u>	<u>\$ 4,398,017</u>	<u>\$ 94,350,964</u>
Interest rate swap agreement liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,691,601</u>	<u>\$ 19,691,601</u>

(a) In accordance with Subtopic 820-10, certain assets that were measured at NAV or its equivalent have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

Oklahoma City University

Notes to Financial Statements

Note 15. Fair Value of Financial Instruments (Continued)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Investments, at fair value:				
Cash	\$ 300,822	\$ -	\$ -	\$ 300,822
Alternative investments:				
Assets held in OUMF Endowment Pool:				
Early secondaries private equity fund, Goldman Sachs	95,844	-	-	95,844
Investment in OCU Law Building Associates, LLC	-	-	988,709	988,709
Note receivable from OCU MNTC Investment Fund, LLC	-	-	1,750,000	1,750,000
Mineral interests	-	-	954,148	954,148
Minerals and other	145,652	-	1,418,154	1,563,806
	<u>542,318</u>	<u>-</u>	<u>5,111,011</u>	<u>5,653,329</u>
Investments measured at net asset value				
Early secondaries private equity fund, Goldman Sachs (a)				469,550
OUMF pooled investment funds (a)				<u>56,461,350</u>
Total investments at fair value				<u>62,584,229</u>
Beneficial interest in assets held by others (a)				<u>29,914,909</u>
Investments in charitable remainder annuity trusts:				
Cash and money market funds	76,524	-	-	76,524
Corporate and government obligations	-	503,390	-	503,390
Mutual funds	2,428,336	-	-	2,428,336
Common stock	740,315	-	-	740,315
Total investments in charitable remainder annuity trusts	<u>3,245,175</u>	<u>503,390</u>	<u>-</u>	<u>3,748,565</u>
Total assets carried at fair value	<u>\$ 3,787,493</u>	<u>\$ 503,390</u>	<u>\$ 5,111,011</u>	<u>\$ 96,247,703</u>
Interest rate swap agreement liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,078,071</u>	<u>\$ 15,078,071</u>

(a) In accordance with Subtopic 820-10, certain assets that were measured at NAV or its equivalent have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

Following is a description of methodologies used for instruments measured at fair value on a recurring basis. There have been no changes in the valuation methodologies used at June 30, 2016 and 2015.

Investments in securities and investments held in charitable remainder annuity trusts: When quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Investments classified as Level 1 include cash and cash equivalents. Government and corporate bonds, and cash surrender values are classified within Level 2 of the hierarchy due to their proprietary nature. Securities classified as Level 2 are independently valued by the fund manager. Assets held in closely held stocks, notes receivable, mineral interests, non-redeemable pooled funds, and other alternative investments are classified within Level 3 of the hierarchy due to unobservable inputs and/or being non-redeemable.

Real estate: Due to the significant unobservable inputs required to estimate the expected future cash receipts from the real estate, all of the University's real estate held as investment is classified as Level 3 in the hierarchy.

Beneficial interest in trusts held by others: Beneficial interests in trusts held by others are primarily pooled investment funds held and managed by OUMF, which the University does not have the ability to redeem. The balances held and invested by OUMF are reported based on an allocation of pooled investment balances at OUMF.

Oklahoma City University

Notes to Financial Statements

Note 15. Fair Value of Financial Instruments (Continued)

Interest rate swap agreements: Interest rate swap agreements are valued by the counterparty using proprietary valuation methods. As a result, these agreements are classified as Level 3.

The University's investments in certain entities that calculate net asset value per share which are measured at fair value include the following:

Investments in securities: Investments in securities that calculate net asset value per share (or its equivalent, such as membership units) total \$56,240,750 and \$56,930,900 at June 30, 2016 and 2015, respectively. These investments consist of various domestic and international equity and bond funds and alternative investments. The University invests in these assets to achieve endowment returns consistent with the adopted investment policies. Investments in these funds include U.S. equities, non-U.S. equities, corporate and governmental bonds, commodities, secondary investments and other investment vehicles. Investments in the OUMF pooled investment funds are redeemable upon request by the University.

Beneficial interest in trust held by others: These investments consist primarily of pooled investment funds held in beneficial interests in assets held by others. These investments are directed by OUMF and others and are designed to achieve endowment returns consistent with their adopted investment policies. Investments in this category cannot be redeemed at the current net asset value per share as the University is the beneficiary of only investment earnings.

The University's valuation process for fair value measurements is determined by University management and monitored by the investment committee. The investment committee reports directly to the Board of Trustees. The University relies on the fair values provided by the custodians throughout the year and reviewed at least annually by the investment committee. The frequency and methods for calibration, back testing and other procedures, including analysis of changes in fair value measurements, are determined based on management's evaluation of the relevant facts and circumstances and reported to and monitored by the investment committee.

Oklahoma City University

Notes to Financial Statements

Note 15. Fair Value of Financial Instruments (Continued)

The following table summarizes the changes in the fair value of the University's Level 3 financial assets and liabilities for the periods ending June 30, 2016 and 2015:

	Investments in Securities	Real Estate	Interest Rate Swap Agreements	Total
Balance at June 30, 2014	\$ 4,837,454	\$ 89,207	\$ (14,234,275)	\$ (9,307,614)
Investment income, net	423,557	-	-	423,557
Change in the value of interest rate swap agreement	-	-	(843,796)	(843,796)
Sales of investments	(150,000)	(89,207)	-	(239,207)
Balance at June 30, 2015	5,111,011	-	(15,078,071)	(9,967,060)
Investment income (loss), net	(812,994)	-	-	(812,994)
Change in the value of interest rate swap agreement	-	-	(4,613,530)	(4,613,530)
Purchases	100,000	-	-	100,000
Balance at June 30, 2016	<u>\$ 4,398,017</u>	<u>\$ -</u>	<u>\$ (19,691,601)</u>	<u>\$ (15,293,584)</u>
Change in unrealized gains or losses for the year included in change in net assets for assets held at the end of the year:				
June 30, 2016	<u>\$ (812,994)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (812,994)</u>
June 30, 2015	<u>\$ 423,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 423,557</u>

The summary of changes in the fair value of Level 3 assets and liabilities have been prepared to reflect the same categories as those used in the statements of activities. Investment income for represents unrealized gains (losses) for those Level 3 assets.

The following table summarizes the valuation techniques and significant unobservable inputs used for the University's investments that are categorized within Level 3 of the fair value hierarchy at June 30, 2016 and 2015:

Investment Type	Fair Value		Valuation Techniques	Unobservable Input ^(c)
	2016	June 30, 2015		
Minerals and other Investment-OCU Law	\$ 1,594,016	\$ 2,372,302	Multiple of annual income	Income multiple ^(a)
Building Associates	954,001	988,709	Discounted cash flows	Discount rate ^(b)
Note from OCU MNTC Investment Fund	1,850,000	1,750,000	Discounted cash flows	Discount rate ^(b)

(a) Represents amounts used when the University has determined that market participants would use such multiples when pricing the investments.

(b) Represents the rate that market participants would take into account when determining fair value of estimated future cash flows.

(c) Significant increases or decreases in any of the above unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.

Oklahoma City University

Notes to Financial Statements

Note 16. Endowment Disclosures

The University's endowments consist of individual donor-restricted funds which are managed and controlled by the University. The University also has endowment funds which are held and managed by OUMF and others (see Note 4). As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All of the endowment funds held by the University are managed and controlled by the University in accordance with the following policies, except for the funds managed by OUMF which are subject to OUMF's interpretation of the law, investment policies and spending policies.

Interpretation of relevant law: The Board of Trustees of the University has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date 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 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2016 and 2015:

	June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (8,779,275)	\$ 23,046,348	\$ 67,245,497	\$ 81,512,570
Board-designated endowment funds	797,870	-	-	797,870
Total endowment funds	<u>\$ (7,981,405)</u>	<u>\$ 23,046,348</u>	<u>\$ 67,245,497</u>	<u>\$ 82,310,440</u>
	June 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (6,458,001)	\$ 23,389,746	\$ 65,503,533	\$ 82,435,278
Board-designated endowment funds	1,636,713	-	-	1,636,713
Total endowment funds	<u>\$ (4,821,288)</u>	<u>\$ 23,389,746</u>	<u>\$ 65,503,533</u>	<u>\$ 84,071,991</u>

Oklahoma City University

Notes to Financial Statements

Note 16. Endowment Disclosures (Continued)

Change in endowment net assets for the years ended June 30, 2016 and 2015:

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (4,821,288)	\$ 23,389,746	\$ 65,503,533	\$ 84,071,991
Investment income (loss), net	(1,431,352)	1,859,164	5,514	433,326
Contributions/transfers	-	70,918	1,736,450	1,807,368
Appropriation of endowment assets for expenditure	(1,728,765)	(2,273,480)	-	(4,002,245)
Endowment net assets, end of year	<u>\$ (7,981,405)</u>	<u>\$ 23,046,348</u>	<u>\$ 67,245,497</u>	<u>\$ 82,310,440</u>

	June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (2,409,972)	\$ 22,851,720	\$ 63,566,962	\$ 84,008,710
Investment income, net	373,374	786,596	23,394	1,183,364
Contributions/transfers	-	1,195,312	1,913,177	3,108,489
Appropriation of endowment assets for expenditure	(2,784,690)	(1,443,882)	-	(4,228,572)
Endowment net assets, end of year	<u>\$ (4,821,288)</u>	<u>\$ 23,389,746</u>	<u>\$ 65,503,533</u>	<u>\$ 84,071,991</u>

Funds with deficiencies: 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 SPMIFA requires the University to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$8,779,275 and \$6,458,001 at June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, respectively, \$7,765,119 and \$5,663,256 of the deficiencies are related to the endowment funds managed by the University. These deficiencies resulted from unfavorable market fluctuations. As a result, appropriations were limited to appropriations that were deemed prudent and necessary for the programs of the University.

Return objectives and risk parameters: For endowment assets the University manages, the University has adopted investment and spending policies for these 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 or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested for the dual purpose of maximizing total return and meeting income needs while managing the level of risk associated with these objectives by effectively diversifying the investments among different asset classes and securities. The asset allocation policies reflect and are consistent with the investment objectives and risk tolerances expressed through the investment policy. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest level of risk. Actual returns in any given year may vary from this amount.

Oklahoma City University

Notes to Financial Statements

Note 16. Endowment Disclosures (Continued)

Strategies employed for achieving objectives: 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 to achieve its long-term return objectives within prudent risk constraints.

Investments managed by OUMF are subject to their investment strategies.

Spending policy and how the investment objectives relate to spending policy: The University's spending policy is to appropriate for distribution each year 5 percent (on an annualized basis) of the ending market value for each month in the quarter. The University applies this spending policy to endowments in net surplus or net deficit positions. Net deficit position endowments are funded through the University's unrestricted net assets, always maintaining the corpus of the endowment in temporarily or permanently restricted net assets, as appropriate. The University periodically evaluates the spending policy to ensure it remains in accordance with the long-term objectives of the University.

Investments managed by OUMF are subject to their spending policies.

Note 17. Law School Building

During fiscal year 2013, the University participated in a structured transaction involving new markets tax credits. This transaction resulted in the University entering into equity investment, loan, and leasing transactions with entities formed to facilitate transactions involving new markets tax credits. The purpose of the transactions is to facilitate the acquisition of a building to be leased, and potentially acquired in the future, by the University as its Law School. These transactions are summarized below.

During fiscal year 2013, the University made an equity investment of \$700,000 into OCU Law Building Associations, LLC (OLBA, LLC), which was formed to acquire and lease a facility to be used as the University's Law School. OLBA LLC also raised an additional \$1,300,000 in equity investments from other sources. The University's investment represents a 35 percent ownership interest in OLBA LLC.

In connection with the above investment, the University loaned \$1,780,000 to OCU NMTC Investment Fund LLC (the Investment Fund, LLC), which was formed to raise funds for investment in a qualified equity investment vehicle. The Investment Fund LLC also raised an additional \$10,341,120 from other sources for a total of \$12,121,200. The Investment Fund LLC invested \$12,000,000 of these funds into MF OCU Law Building, LLC (MF Building, LLC) as a qualified equity investment.

MF Building LLC loaned the investment proceeds of \$12,000,000 to OLBA, LLC. In December 2012, OLBA, LLC utilized \$10,000,000 of the loan proceeds to acquire a building located at 800 N. Harvey Avenue, Oklahoma City, Oklahoma, and \$521,023 for title work, attorney, and consulting fees. The balance of the funds is to be used for renovation and other operating expenses.

During fiscal year 2014, the University participated in another structured transaction involving historical tax credits. This transaction resulted in the University entering into another loan, revised the previous lease agreement entered into with OLBA, LLC, and increased the University's equity investment in OLBA, LLC from 35 percent to 36.84 percent. The purpose of this transaction is to raise additional funds for continued renovation of the facility purchased in the first structured transaction noted above. This transaction is summarized below.

Oklahoma City University

Notes to Financial Statements

Note 17. Law School Building (Continued)

This transaction created a new entity, OCULBA Master Tenant, LLC (Master Tenant, LLC) which raised \$971,074 of equity investments from other sources which were then loaned to OLBA, LLC. The University also agreed to loan OLBA, LLC up to \$5,200,000 under this transaction of which \$3,601,113 and \$3,659,601 was funded as of June 30, 2016 and 2015, respectively. Finally, OLBA, LLC sold the historical tax credits that will be generated as a result of qualifying rehabilitation expenditures that OLBA, LLC expects to incur in the renovation of the facility for an initial purchase price of \$1,767,211 which will be subsequently adjusted in accordance with the related purchase and sale agreement. \$319,250 of the proceeds raised in this transaction was used for attorney and consulting fees with the balance of the funds to be used for renovation and other operating expenses.

As of June 30, OLBA, LLC's summarized unaudited balance sheet information is as follows:

	2016	2015
Current assets	\$ 44,550	\$ 72,361
Noncurrent assets	21,652,027	21,756,184
Total assets	<u>\$ 21,696,577</u>	<u>\$ 21,828,545</u>
Current liabilities	\$ 71,610	\$ 20,369
Noncurrent liabilities	19,194,060	19,283,640
	19,265,670	19,304,009
Equity	2,430,907	2,524,536
Total liabilities and equity	<u>\$ 21,696,577</u>	<u>\$ 21,828,545</u>

For the year ended June 30, 2016, OLBA, LLC had net loss of approximately (\$74,000) and paid distributions to members of approximately \$143,000. For the year ended June 30, 2015, OLBA, LLC had net (loss) of approximately (\$78,000) and paid distributions to members of approximately \$143,000.

In December 2012, the University entered into a lease agreement with OLBA, LLC to lease the acquired building which was terminated in April 2014. In April 2014, OLBA, LLC entered into a lease agreement with Master Tenant, LLC to lease the acquired building who simultaneously entered into an agreement with the University to sublease the acquired building to the University. The lease term is April 25, 2014 through December 31, 2024, and requires rents as follows (annually on a calendar year):

Lease Period	Annual Rent	Lease Period	Annual Rent
April 25, 2014—December 31, 2014	\$ 100,000	2020	\$ 1,400,000
2015	898,000	2021	1,400,000
2016	940,000	2022	1,400,000
2017	945,000	2023	1,400,000
2018	950,000	2024	1,400,000
2019	955,000		

Due to escalation clauses included in both the original and revised lease agreements, the University records annual rents using a straight-line allocation approach. The monthly rental rate under the sublease agreement entered in April 2014 was \$92,094 (annual rate of \$1,105,128) through December 31, 2015, when it was modified to be \$93,073 (annual rate of \$1,116,881). For the year ended June 30, 2016 and 2015, respectively, the University paid \$940,300 and \$549,000 of rentals under the lease agreements.

Oklahoma City University

Notes to Financial Statements

Note 17. Law School Building (Continued)

The University has an option to purchase the leased premises, which becomes effective on the latter of (i) the 5th anniversary of the leased premises being placed in service and (ii) December 5, 2019. The optional purchase price of the leased premises is the greater of (i) the fair market value of the premises at the time of the exercise of the purchase option and (ii) the sum of (a) an amount calculated to provide the Owner with a guaranteed positive return over the term of the Master Lease, and (b) the termination payment (as defined in the Master Lease). The termination payment is \$950,000 if the University exercises its option to purchase the leased premises on the initial exercise option date and such payment shall be reduced proportionately each month through the lease term that the purchase option is not exercised.

Note 18. Trust Funds Held For Others

Trust funds held for others are recorded with annuities payable in the accompanying statement of financial position and consist of the following as of June 30:

	2016	2015
Trust A (a)	\$ 1,292,681	\$ 1,935,375
Trust B (b)	629,269	661,936
Other	92,793	105,737
	<u>\$ 2,014,743</u>	<u>\$ 2,703,048</u>

- (a) In 2001, the University became the trustee of a charitable remainder annuity trust initially funded with investments totaling \$10,000,000. After establishing the trust, the original donor authorized \$4,500,000 of trust assets to be used for other projects of the University. Pursuant to the terms of the trust document, each year, the trust pays the settlor an annuity of six percent (6 percent) of the original fair market value of assets contributed to the trust by the settlor to the extent that there are trust assets available. Upon the death of the settlor, remaining trust assets, if any, shall be distributed to the University as remainder beneficiary, to be used for unrestricted endowment purposes. On August 31, 2016, the University entered into an agreement with the settlor that in the event that the trust assets are exhausted prior to the settlor's death the University will continue to make monthly payments of four (4%) percent ending upon the settlor's death or June 1, 2022, whichever occurs sooner.
- (b) In 2011, the University became the trustee of a charitable remainder unitrust initially funded with investments totaling \$1,500,000. Each year, the trust pays eight and 15/1000 percent (8.015 percent) of the original fair market value of assets contributed to the trust to the beneficiary to the extent that there are trust assets available. Upon the death of the beneficiary, remaining trust assets, if any, shall be distributed to the University to be used to fund an endowed chair in the school of dance.