



OKLAHOMA BAPTIST UNIVERSITY

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

May 31, 2023 and 2022

OKLAHOMA BAPTIST UNIVERSITY

Table of Contents

	<u>Page</u>
SECTION I – Management Discussion & Analysis	
SECTION II – Audited Consolidated Financial Statements	
Independent Auditors’ Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities–2023	4
Consolidated Statement of Activities–2022	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

SECTION I

Management Discussion & Analysis

OKLAHOMA BAPTIST UNIVERSITY

May 31, 2023

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 2022 semester, Bison Hill welcomed just over 400 new students, freshmen, and transfers to campus to begin their journey toward earning a college degree from the University. Total headcount was approximately 1,400 students. The University remains committed to academic excellence and helping OBU students succeed in whatever path they choose.

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 held by outside investment managers, which includes beneficial interests held by others, plus unrestricted distributions from endowed assets as of May 31, 2023, was approximately \$170 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, 2023 and 2022, as well as the results of operations and cash flows for the years ended May 31, 2023 and 2022.

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 \$55.6 million as of May 31, 2023, an increase of \$11 million. The University's endowment assets along with beneficial interests held by outside investment managers increased \$2.1 million to \$160.6 million primarily due to unrealized gains as of May 31, 2023. The vast majority of these assets are under management at WatersEdge.

The University's net investment in educational plant decreased \$16.4 million to approximately \$85.5 million compared to \$101.9 million as of the end of the previous fiscal year. In April 2023, the University experienced a significant casualty loss event which damaged nearly every building on campus. As a result, the University impaired educational plant assets by \$17.1 million. Further changes to educational plant were the annual depreciation expense of \$3.6 million offset by renovations to buildings and equipment purchases totaling \$5.6 million.

The University's long-term debt results from an agreement with the Oklahoma Baptist University Authority (see Note 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 the 2022-2023 fiscal year, the University made principal payments of over \$2.1 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, 2023 and 2022, the University reported student generated revenue of approximately \$23.4 million and \$25.9 million, respectively.

During the fiscal year ended May 31, 2023, the University continued to receive generous support from its strong base of alumni and friends as well as Oklahoma Southern Baptists. For the 2022-2023 fiscal year, the University received \$2.4 million from the Oklahoma Baptists' Cooperative Program, \$3 million from Tulsa Royalties Company and an additional \$11.2 million in support for various programs and activities and contributions to endowments.

During the 2022-2023 fiscal year, the investment markets experienced significant volatility. The University recorded unrealized gains on invested assets of approximately \$3.8 million in addition to a positive change in the value of beneficial interests of approximately \$0.3 million. The University has a diversified portfolio of investments which include primarily equity based assets and mineral assets. For the current fiscal year, mineral assets continued to outperform the equity based assets. 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. However, economic inflationary factors continue to pressure on the operating budget. Operating expenses were approximately \$46.7 million for the year ended May 31, 2023, compared to approximately \$44.9 million for the previous fiscal year, an increase of approximately 4%.

Total net assets increased from approximately \$282.1 million at the end of the previous fiscal year to just over \$297.8 million as of May 31, 2023. This increase is due a number factors including increased donor support of \$4.4 million, insurance proceeds from the casualty loss event of \$5 million, Employee Retention Credit of \$5.7 million and also unrealized gains on investments and beneficial interests of \$4.1 million.

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, 2023 and 2022

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Baptist University
Shawnee, Oklahoma

Opinion

We have audited the accompanying consolidated financial statements of Oklahoma Baptist University, which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Oklahoma Baptist University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Oklahoma Baptist University's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Trustees
Oklahoma Baptist University
Shawnee, Oklahoma

Responsibilities of Management for the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oklahoma Baptist University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oklahoma Baptist University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Irving, Texas
November 10, 2023

OKLAHOMA BAPTIST UNIVERSITY

Consolidated Statements of Financial Position

	May 31,	
	2023	2022
ASSETS:		
Cash and cash equivalents	\$ 6,133,297	\$ 1,171,031
Accounts receivable, net	3,028,558	3,924,912
Insurance proceeds receivable	17,823,144	-
Government funds receivable	5,697,110	-
Prepaid expenses and other assets	1,502,664	780,993
Student loans receivable	169,832	585,377
Investments	49,443,949	43,365,891
Investments held for long-term purposes	94,412,794	93,229,415
Beneficial interests and remainder interests receivable	66,152,432	65,272,168
Operating lease right-of-use-asset	87,544	-
Finance lease right-of-use-asset	119,426	-
Educational plant, net	85,372,008	101,927,618
	\$ 329,942,758	\$ 310,257,405
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 8,389,227	\$ 1,247,358
Accrued expenses and other liabilities	261,225	311,421
Operating lease liabilities	87,544	-
Finance lease liabilities	132,260	-
Prepaid tuition and other deposits	157,127	167,345
Unamortized investment in educational plant	1,737,407	1,822,588
Long-term debt, net	18,089,018	20,215,615
Post-retirement benefits obligation	2,348,056	2,878,208
Asset retirement obligation	1,318,407	1,251,239
Government advances refundable	127,374	218,250
Total liabilities	32,647,645	28,112,024
Net assets:		
Without donor restrictions	105,152,992	99,727,925
With donor restrictions:		
Restricted by time or purpose	67,554,998	59,687,873
Perpetual in nature	124,587,123	122,729,583
	192,142,121	182,417,456
Total net assets	297,295,113	282,145,381
Total Liabilities and Net Assets	\$ 329,942,758	\$ 310,257,405

See notes to consolidated financial statements

OKLAHOMA BAPTIST UNIVERSITY

Consolidated Statement of Activities

	Year Ended May 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER SUPPORT:			
Tuition and fees, net	\$ 15,387,141	\$ -	\$ 15,387,141
Contributions and grants	1,753,921	7,905,279	9,659,200
Government funds revenue	5,961,254	-	5,961,254
Allocation from Oklahoma Baptists	2,408,675	-	2,408,675
Royalties from Tulsa Royalties Company	-	3,080,500	3,080,500
Auxiliary services	8,071,012	-	8,071,012
Investment and endowment income	7,924,251	6,563,818	14,488,069
Change in value of beneficial interests in funds held by others	-	306,708	306,708
Other income	8,634,525	1,526	8,636,051
Net assets released from restrictions due to satisfaction of purpose and time restrictions and transfers	8,133,166	(8,133,166)	-
Total Revenue, Gains, and Other Support	58,273,945	9,724,665	67,998,610
EXPENSES:			
Program activities:			
Educational activities	16,893,581	-	16,893,581
Student services	13,045,964	-	13,045,964
Auxiliary services	12,811,917	-	12,811,917
Support services	10,097,416	-	10,097,416
Total Expenses	52,848,878	-	52,848,878
Change in Net Assets	5,425,067	9,724,665	15,149,732
Net Assets, Beginning of Year	99,727,925	182,417,456	282,145,381
Net Assets, End of Year	\$ 105,152,992	\$ 192,142,121	\$ 297,295,113

See notes to consolidated financial statements

OKLAHOMA BAPTIST UNIVERSITY

Consolidated Statement of Activities

	Year Ended May 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER SUPPORT:			
Tuition and fees, net	\$ 17,528,208	\$ -	\$ 17,528,208
Contributions and grants	3,067,344	3,750,519	6,817,863
Government grants related to COVID-19	5,532,260	-	5,532,260
Allocation from Oklahoma Baptists	2,401,700	-	2,401,700
Royalties from Tulsa Royalties Company	-	2,293,500	2,293,500
Auxiliary services	8,383,796	-	8,383,796
Investment and endowment income	5,320,232	7,263,958	12,584,190
Change in value of beneficial interests in funds held by others	-	1,177,775	1,177,775
Other income	3,434,812	-	3,434,812
Net assets released from restrictions due to satisfaction of purpose and time restrictions and transfers	4,604,475	(4,604,475)	-
Total Revenue, Gains, and Other Support	50,272,827	9,881,277	60,154,104
EXPENSES:			
Program activities:			
Educational activities	14,317,751	-	14,317,751
Student services	13,555,446	-	13,555,446
Auxiliary services	8,501,211	-	8,501,211
Support services	8,518,760	-	8,518,760
Total Expenses	44,893,168	-	44,893,168
Change in Net Assets	5,379,659	9,881,277	15,260,936
Net Assets, Beginning of Year	94,348,266	172,536,179	266,884,445
Net Assets, End of Year	\$ 99,727,925	\$ 182,417,456	\$ 282,145,381

See notes to consolidated financial statements

OKLAHOMA BAPTIST UNIVERSITY

Consolidated Statements of Cash Flows

	Year Ended May 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors and grantors	\$ 13,522,927	\$ 14,017,837
Cash received from students	23,476,944	26,442,515
Interest and dividends received	6,471,287	4,037,600
Other cash received	8,772,735	3,161,748
Cash paid to or on behalf of employees	(22,045,722)	(21,154,773)
Cash paid to students	-	(2,649,395)
Cash paid to vendors	(20,244,567)	(17,726,536)
Cash paid for interest	(802,824)	(862,342)
Net Cash Provided by Operating Activities	9,150,780	5,266,654
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of educational plant assets	(5,575,518)	(3,414,204)
Proceeds from sales of investments	17,600,000	12,257,035
Purchases of investments	(14,025,251)	(13,615,930)
Net Cash Used by Investing Activities	(2,000,769)	(4,773,099)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(2,187,745)	(1,709,401)
Net Cash Used by Financing Activities	(2,187,745)	(1,709,401)
Change in Cash and Cash Equivalents	4,962,266	(1,215,846)
Cash and Cash Equivalents, Beginning of Year	1,171,031	2,386,877
Cash and Cash Equivalents, End of Year	\$ 6,133,297	\$ 1,171,031

See notes to consolidated financial statements

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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 independent, nonprofit University 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 keeping with the purpose of the 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.

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.

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.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2023 and 2022, 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, 2023 and 2022, the University's cash balances exceeded federally insured limits by \$5,883,297 and \$921,013, respectively.

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.

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, 2023 and 2022, the allowance for uncollectible accounts was \$4,961,560 and \$4,503,931, respectively.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

GOVERNMENT FUNDS RECEIVABLE

Government funds receivable includes a receivable for the amount of credit expected to be claimed under the Employee Retention Credit (ERC) which was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The receivable represents refunds due on the 2021 Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the quarter ended March 31, 2021, and the 2021 Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for the quarter ended June 30, 2020. The total amount of tax credit claimed was \$5,697,110. For the year ended May 31, 2023, the amount of the receivable outstanding is \$5,697,110. In July 2023, shortly after the end of the fiscal year, the funds were received from the federal government.

INSURANCE RECEIVABLE

On April 19, 2023, the University experienced a tornado which affected nearly every building owned by the University. The University evaluated all assets for impairment as of May 31, 2023. As a result of this evaluation, the University determined assets, primarily roofs, of \$28,570,805 and the related accumulated depreciation of \$11,457,869 were impaired, resulting in a loss on impairment of \$17,112,936. The University's buildings were insured for such damage and insurance proceeds directly related this impairment were recorded to offset the extent of the loss to \$0. In addition, the University incurred \$7,051,066 of repairs and maintenance costs prior to May 31, 2023, related to non-capital tornado damages and other emergency remediations. These non-capital expenditures were covered under insurance. Insurance receivable represents the amount of the impairment loss and reimbursement for the repairs and emergency remediation not yet received from insurance as of May 31, 2023. The University received payouts from the insurance company of approximately \$27,000,000 as of the date of issuance.

STUDENT LOANS RECEIVABLE

The University has outstanding student loans receivable totaling \$169,832 and \$585,377 as of May 31, 2023 and 2022, 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 \$601,000 and \$539,000 as of May 31, 2023 and 2022.

INVESTMENTS HELD FOR LONG-TERM PURPOSES

Investments held for long-term purposes represent assets where the University is custodian of the funds but has placed them at WatersEdge for investment management. Investments held for long-term purposes are stated at fair value. Gains and losses are included in the consolidated statements of activities in the period incurred. Alternative investments, which are not readily marketable, are carried at pooled fair values as provided by investment managers.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTERESTS AND REMAINDER INTERESTS

Beneficial interests of the University consist of irrevocable perpetual agreements established by a donor. Third-party trustees are the custodian of the funds and are 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 \$5,000 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.

OPERATING AND FINANCE LEASE-RIGHT OF USE ASSETS AND OBLIGATIONS

The University adopted Accounting Standards Update (ASU) 2016-02 (see recently adopted accounting standard below) and its related amendments as of June 1, 2022. The University elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of June 1, 2022, without restatement of prior-year amounts. Right-of-use assets represent the University's right to use the underlying asset for the lease term. Right-of-use assets and related liabilities are recognized at commencement date based on the net present value of lease payments over the lease term discounted using an incremental borrowing rate. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise the option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases with a term of 12 or fewer months are not reflected on the consolidated statements of financial position, and costs are expensed as incurred. The additional lease disclosures can be found in Note 11.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 2036. 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.

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.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 \$25,029,075 and \$25,959,557 for the years ended May 31, 2023 and 2022, respectively.

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 earnings on assets 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 year ended May 31, 2022, the University received funding under the Cares Act for the Higher Education Emergency Relief Fund, as further described in Note 20. The University also received \$234,370 from the Strengthening Institutions Program.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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 17. Advertising and promotion costs of \$1,062,029 and \$867,020, respectively, for the years ended May 31, 2023 and 2022, 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.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07—*Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The University adopted the presentation and disclosure of this new ASU during the year ended May 31, 2023, on a retrospective approach. The disclosures required by ASU 2020-07 have not been included in these consolidated financial statements due to immateriality.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The amendments in this update require organizations that lease assets to recognize on the consolidated statement of financial position the assets and liabilities for the rights and obligations created by the leases. The amendments are effective for fiscal years beginning after December 15, 2021. The new guidance was adopted by the University, effective June 1, 2022. Leases are classified as either operating or finance. The University elected to adopt the transition relief provisions from ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements* and recorded the impact of adoption as of January 1, 2022, without restating any prior-year amounts. The University also elected to exclude short-term leases with lease terms of 12 months or less. Additional lease disclosure can be found in Notes 2 and 11.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 6,133,297	\$ 1,171,031
Accounts receivable	3,028,558	3,924,912
Insurance proceeds receivable	17,823,144	-
Government funds receivable	5,697,110	-
Student notes receivable	169,832	585,377
Investments	49,443,949	43,365,891
Investments held for long-term purposes	94,412,794	93,229,415
Beneficial interests and remainder interests receivable	66,152,432	65,272,168
Financial assets, at year-end	242,861,116	207,548,794
Less those unavailable for general expenditure within one year, due to:		
Accounts receivable collectible beyond one year	(1,786,602)	(1,896,862)
Student loans receivable restricted	(169,832)	(585,377)
Investments not convertible to cash within next 12 months or restricted by donors for use in future periods	(20,357,863)	(15,498,235)
Board-designated funds included in investments held for long-term purposes	(10,106,372)	(7,040,198)
Accumulated earnings of investments held for long-term purposes, and other funds restricted by time and purpose, to be spent beyond one year	(35,067,765)	(34,433,049)
Investments held for long-term purposes restricted in perpetuity	(58,546,092)	(57,598,047)
Beneficial interests and remainder interests restricted in perpetuity	(66,041,031)	(65,131,536)
Financial assets available to meet cash needs for general expenditures within one year	\$ 50,785,559	\$ 25,365,490

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

3. LIQUIDITY AND FUNDS AVAILABLE, continued:

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.

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 \$123,893 and \$218,250 as of May 31, 2023 and 2022, respectively, were ultimately refundable to the government and are classified as a liability in the consolidated statements of financial position. The University has notified the ED of our intent to liquidate the Perkins loan portfolio and has initiated the process of assignment per ED guidelines.

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,	
	2023	2022
Perkins student loan portfolio	\$ 169,832	\$ 497,171
Endowed student loan portfolio	601,214	627,462
	<u>771,046</u>	<u>1,124,633</u>
Less allowance for uncollectible amounts	<u>(601,214)</u>	<u>(539,256)</u>
	<u>\$ 169,832</u>	<u>\$ 585,377</u>

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

4. STUDENT LOANS RECEIVABLE, continued:

The aging of the Perkins and Endowed loan portfolio by class of loans as of May 31, 2023, consists of:

	Amount	Percent of Subtotal
<u>Good Standing</u>		
Deferred and not in repayment	\$ 27,533	20%
Repayment on schedule	108,108	80%
	135,641	100%
<u>Past Due</u>		
Not defaulted: Less than 240 days	33,024	5%
Default: Greater than 240 but less than 2 years	22,141	3%
Default: Greater than 2 years but less than 5 years	104,260	16%
Greater than 5 years	475,980	75%
	635,405	100%
Less allowance	(601,214)	
Total student loans receivable	\$ 169,832	

The aging of the Perkins and Endowed loan portfolio by class of loans as of May 31, 2022, consists of:

	Amount	Percent of Subtotal
<u>Good Standing</u>		
Deferred and not in repayment	\$ 61,786	30%
Repayment on schedule	146,868	70%
	208,654	100%
<u>Past Due</u>		
Not defaulted: Less than 240 days	44,468	5%
Default: Greater than 240 but less than 2 years	50,283	5%
Default: Greater than 2 years but less than 5 years	204,716	22%
Greater than 5 years	616,512	68%
	915,979	100%
Less allowance	(539,256)	
Total student loans receivable	\$ 585,377	

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

4. STUDENT LOANS RECEIVABLE, continued:

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

	Year Ended May 31,	
	2023	2022
Beginning balance	\$ 539,256	\$ 539,256
Increases to allowance for estimated losses	418,574	-
Loans charged off/assigned	(356,616)	-
	<u>\$ 601,214</u>	<u>\$ 539,256</u>

5. INVESTMENTS:

Investments consist of:

	May 31,	
	2023	2022
Certificates of deposit and cash equivalents	\$ 19,359	\$ 2,701
Institutional cash fund	27,906,580	26,831,489
Mineral interests	20,357,863	15,364,833
Bond pooled funds	690,768	709,117
Equity mutual funds	42,278	39,691
Domestic equities, exchange traded funds, and other	427,101	418,060
	<u>\$ 49,443,949</u>	<u>\$ 43,365,891</u>
Investments without donor restrictions	\$ 31,601,942	\$ 31,898,749
Restricted investments	17,842,007	11,467,142
	<u>\$ 49,443,949</u>	<u>\$ 43,365,891</u>

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

6. INVESTMENTS HELD FOR LONG-TERM PURPOSES, BENEFICIAL INTERESTS, AND REMAINDER INTERESTS RECEIVABLE:

Assets are held by the following entities:

	May 31,	
	2023	2022
Investments held for long-term purposes placed at WatersEdge for investment	\$ 94,412,794	\$ 93,229,415
Beneficial interests:		
Beneficial interests held by WatersEdge	61,835,869	61,347,255
Beneficial interests held by Arvest Asset Management	1,913,285	2,013,715
Beneficial interests held by the Oklahoma City Community Foundation	773,722	822,886
Beneficial interests held by Northern Trust Company	1,396,734	847,957
Beneficial interests held by Southern Baptist Foundation	215,641	220,789
Beneficial interests held by Presbyterian Foundation	17,181	19,566
	66,152,432	65,272,168
	\$ 160,565,226	\$ 158,501,583

Assets invested at WatersEdge in a custodial capacity or held in a beneficial interest 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.

Investments held for long-term purposes, beneficial interests, and remainder interests receivable are invested as follows:

	May 31,	
	2023	2022
Spending policy pool	\$ 86,613,044	\$ 89,533,677
Beneficial interests in funds held by others	65,660,923	64,524,366
Mineral interests	7,763,855	3,653,431
Charitable remainder interests	491,509	747,802
Pooled domestic equities	35,895	42,307
	\$ 160,565,226	\$ 158,501,583

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

7. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENT:

The following disclosures of estimated fair value of financial instruments as of May 31, 2023 and 2022, 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.

Mineral interests

Investments in mineral interests are carried at fair value calculated by multiplying the most recent 12 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 University's interest is carried at approximated fair value. There are no redemption restrictions or capital calls on the pooled funds.

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.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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

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.

Fair values of assets measured on a recurring basis as of May 31, 2023, 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	\$ 20,357,863	\$ -	\$ -	\$ 20,357,863
Domestic equities	420,298	420,298	-	-
Pooled high quality bond funds	344,182	-	344,182	-
Pooled multi-strategy bond funds	346,586	-	346,586	-
Equity mutual growth funds	42,278	42,278	-	-
Exchange traded funds	6,803	6,803	-	-
	21,518,010	469,379	690,768	20,357,863
Reconciling items at cost:				
Cash equivalents invested in institutional cash fund	27,906,580			
Certificates of deposit and cash equivalents	19,359			
	27,925,939			
Total investments	\$ 49,443,949			

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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

Fair values of assets measured on a recurring basis as of May 31, 2023, are, continued:

	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 held for long-term purposes				
invested at WatersEdge:				
Spending policy pool	\$ 86,613,044	\$ -	\$ -	\$ 86,613,044
Domestic equity	35,895	35,895	-	-
Other investments:				
Mineral interests	7,763,855	-	-	7,763,855
	94,412,794	35,895	-	94,376,899
Beneficial interests and remainder interests:				
Held by WatersEdge:				
Beneficial interest in funds				
held by others	61,344,363	-	-	61,344,363
Charitable remainder interests	491,509	-	491,509	-
Held by Arvest Asset Management:				
Beneficial interest in funds held by others	1,913,285	-	-	1,913,285
Held by the Oklahoma City Community Foundation:				
Beneficial interest in funds held by others	773,720	-	-	773,720
Held by other trustees:				
Beneficial interest in funds held by others	1,629,555	-	-	1,629,555
	66,152,432	-	491,509	65,660,923
Total investments held for long-term purposes, beneficial interests, and remainder interests				
	\$ 160,565,226			

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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

Fair values of assets measured on a recurring basis as of May 31, 2022, 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	\$ 15,364,833	\$ -	\$ -	\$ 15,364,833
Pooled high quality funds	400,313	400,313	-	-
Pooled multi-strategy funds	356,310	-	356,310	-
Domestic equities	352,807	-	352,807	-
Exchange traded funds	39,691	39,691	-	-
Equity mutual funds:	17,747	17,747	-	-
	16,531,701	457,751	709,117	15,364,833
Reconciling item at cost:				
Cash equivalents invested in institutional cash fund	26,831,489			
Certificates of deposit and cash equivalents	2,701			
	26,834,190			
Total investments	\$ 43,365,891			

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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

Fair values of assets measured on a recurring basis as of May 31, 2022, are, continued:

	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 held for long-term purposes				
invested at WatersEdge:				
Spending policy pool	\$ 89,533,677	\$ -	\$ -	\$ 89,533,677
Domestic equity	42,307	42,307	-	-
Other investments:				
Mineral interests	3,653,431	-	-	3,653,431
	93,229,415	42,307	-	93,187,108
Beneficial interests and remainder interests:				
Held by WatersEdge:				
Beneficial interest in funds				
held by others	60,599,453	-	-	60,599,453
Charitable remainder interests	747,802	-	747,802	-
Held by Arvest Asset Management:				
Beneficial interest in funds held by others	2,013,715	-	-	2,013,715
Held by the Oklahoma City Community Foundation:				
Beneficial interest in funds held by others	822,886	-	-	822,886
Held by other trustees:				
Beneficial interest in funds held by others	1,088,312	-	-	1,088,312
	65,272,168	-	747,802	64,524,366
Total investments held for long-term purposes, beneficial interests, and remainder interests				
	\$ 158,501,583			

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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, 2023 and 2022

8. ENDOWMENT, continued:

Changes in endowment net assets for the year ended May 31, 2023:

	With Donor Restrictions			Total
	Without Donor Restrictions	Original Gift Amount *	Accumulated Gains (Losses) and Other **	
Endowment net assets, beginning of year	\$ 7,040,198	\$ 57,398,305	\$ 37,247,276	\$ 101,685,779
Investment return:				
Investment income	1,373,295	-	4,488,574	5,861,869
Net gains (losses) (realized and unrealized)	2,301,524	-	(2,842,180)	(540,656)
	3,674,819	-	1,646,394	5,321,213
Contributions	-	1,230,599	32,375	1,262,974
Amounts appropriated for expenditure	(608,645)	-	(3,858,280)	(4,466,925)
	(608,645)	1,230,599	(3,825,905)	(3,203,951)
Endowment net assets, end of year	\$ 10,106,372	\$ 58,628,904	\$ 35,067,765	\$ 103,803,041

* 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, 2023 and 2022

8. ENDOWMENT, continued:

Changes in endowment net assets for the year ended May 31, 2022:

	With Donor Restrictions			Total
	Without Donor Restrictions	Original Gift Amount *	Accumulated Gains (Losses) and Other **	
Endowment net assets, beginning of year	\$ 5,476,110	\$ 56,144,341	\$ 35,483,617	\$ 97,104,068
Investment return:				
Investment income	928,569	-	4,141,598	5,070,167
Net gains (realized and unrealized)	1,120,211	-	970,766	2,090,977
	2,048,780	-	5,112,364	7,161,144
Contributions	-	1,253,964	44,721	1,298,685
Amounts appropriated for expenditure	(484,692)	-	(3,393,426)	(3,878,118)
	(484,692)	1,253,964	(3,348,705)	(2,579,433)
Endowment net assets, end of year	\$ 7,040,198	\$ 57,398,305	\$ 37,247,276	\$ 101,685,779

* 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, 2023 and 2022

8. ENDOWMENT, continued:

As disclosed in Note 13, at May 31, 2023 and 2022, 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, 2023:			
Beneficial interests	\$ -	\$ 65,660,924	\$ 65,660,924
Future interest in remainder interests	\$ -	\$ 491,509	\$ 491,509
Held by the University for student loan programs and scholarships	\$ -	\$ 199,742	\$ 199,742
May 31, 2022:			
Beneficial interests	\$ -	\$ 64,524,366	\$ 64,524,366
Future interest in remainder interests	\$ -	\$ 747,802	\$ 747,802
Held by the University for student loan programs and scholarships	\$ -	\$ 199,742	\$ 199,742

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, 2023 and 2022, deficiencies of this nature existed in nine and four donor-restricted endowment funds with original gift value of \$847,759 and \$517,286, current fair value of \$823,273 and \$510,206, and a deficiency of \$24,485 and \$7,080, 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, 2023 and 2022

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 the prior year's annual dividend adjusted for inflation. This rate will be subject to a floor of 3.5% and a cap of 4.75% 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 undesignated 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,	
	2023	2022
Land and improvements	\$ 8,767,335	\$ 8,706,156
Buildings	102,592,574	128,887,719
Equipment	31,291,596	30,523,697
Software	3,876,353	3,861,361
Library books	780,616	866,402
Construction in progress	2,271,168	1,181,813
	<u>149,579,642</u>	<u>174,027,148</u>
Accumulated depreciation	<u>(64,207,634)</u>	<u>(72,099,530)</u>
	<u>\$ 85,372,008</u>	<u>\$ 101,927,618</u>

The University experienced a casualty loss event on April 19, 2023, which caused significant damage to nearly every building and structure across campus. As a result, educational plant assets were impaired to account for these losses. As of May 31 2023, the acquisition cost of buildings was impaired and reduced by \$28,570,805, offset by a reduction in accumulated depreciation of \$11,457,869. This net impairment loss was offset with insurance proceeds as described in Note 2.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

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, 2023 and 2022. Accumulated amortization on these assets is approximately \$22,279,000 and \$21,056,000 and as of May 31, 2023 and 2022, respectively. These assets are included in educational plant assets.

The Authority financed these projects by issuing debt. As of May 31, 2023, 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.

Approximately \$107,000 of debt issuance costs is netted against the long-term debt balance as of May 31, 2023, and \$133,000 as of May 31, 2022.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

10. LONG-TERM DEBT, NET, continued:

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

Year	Series 2012	Series 2013	Series 2015A	Series 2015B	Total
2024	\$ 433,165	\$ 601,087	\$ 668,393	\$ 303,648	\$ 2,006,293
2025	447,935	629,593	682,701	310,458	2,070,687
2026	462,826	658,262	697,316	317,421	2,135,825
2027	478,213	688,235	712,243	324,540	2,203,231
2028	493,910	718,766	60,037	192,665	1,465,378
Thereafter	2,098,584	6,215,521	-	-	8,314,105
	<u>\$ 4,414,633</u>	<u>\$ 9,511,464</u>	<u>\$ 2,820,690</u>	<u>\$ 1,448,732</u>	18,195,519
Less capitalized debt issuance costs					<u>(106,501)</u>
Total long-term debt, net					<u>\$ 18,089,018</u>

11. RIGHT-OF-USE ASSETS AND LIABILITIES:

The University leases equipment under three non-cancellable finance leases expiring at various dates through 2028. One lease requires an annual payment of \$27,225, one lease requires monthly payments totaling \$45,609 and one lease requires quarterly payments totaling \$5,293. The discount rates represents the incremental borrowing rate of 6%.

The University leases equipment under three non-cancellable operating leases expiring at various dates through 2025. The leases require monthly payments totaling \$69,487. The discount rates represents the incremental borrowing rate of 6%.

	<u>May 31, 2023</u>
Assets:	
Operating right-of-use	\$ 87,544
Finance right-of-use	\$ 119,426
Liabilities:	
Operating lease liabilities	\$ 87,544
Finance lease liabilities	\$ 132,260
Lease cost:	
Finance lease costs:	
Amortization of ROU assets	\$ 58,686
Interest on lease liabilities	\$ 10,561
Operating lease costs	\$ 69,487

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

11. RIGHT-OF-USE ASSETS AND LIABILITIES:

Weighted-average discount rate	
Operating leases	6.00%
Finance leases	6.00%
Weighted-average remaining lease term	
Operating leases	1.41
Finance leases	2.56

Future minimum lease payments required under operating and finance leases that have an initial or remaining non-cancelable lease term in excess of one year are as follows:

Years Ending May 31,	Finance Amounts	Operating Amounts
2024	\$ 78,128	\$ 69,487
2025	32,433	22,218
2026	21,772	-
2027	5,207	-
2028	5,207	-
Thereafter	2,603	-
	145,350	91,705
Less imputed interest	(13,090)	(4,161)
	\$ 132,260	\$ 87,544

12. 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, 2023, is:

Retired participants	\$ 2,348,056
Plan assets at fair value	-
Accumulated postretirement benefit obligation in excess of plan assets	\$ 2,348,056

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

12. POST-RETIREMENT BENEFITS OBLIGATION, continued:

Net periodic postretirement benefit cost for the year ended May 31, 2023, includes:

Interest cost	\$ 110,918
Loss to the extent recognized	11,716
Amortization of unrecognized prior service cost	<u>(34,155)</u>
	<u><u>\$ 88,479</u></u>

Accumulated postretirement benefit obligation as of May 31, 2022, is:

Retired participants	\$ 2,878,208
Plan assets at fair value	<u>-</u>
	<u><u>\$ 2,878,208</u></u>

Net periodic postretirement benefit cost for the year ended May 31, 2022, includes:

Interest cost	\$ 79,228
Loss to the extent recognized	55,433
Amortization of unrecognized prior service cost	<u>(34,156)</u>
	<u><u>\$ 100,505</u></u>

During the years ended May 31, 2023 and 2022, the University contributed and paid benefits totaling \$182,796 and \$203,445 respectively.

For measurement purposes, the following assumptions have been used to determine benefit obligations as of May 31, 2023 and 2022:

	2023	2022
Discount rate	4.99%	4.05%
Expected long-term health care cost increase:		
Initial rate–Pre-65 (medical/rx)	-	7.29%/7.00%
Initial rate–Post-65 (medical/rx)	4.30%/7.50%	3.90%/6.74%
Ultimate rate–Pre-65 (medical/rx)	-	4.40%/4.90%
Ultimate rate–Post-65 (medical/rx)	4.30%/4.87%	3.90%/4.90%
Time to ultimate rate	8 years	7 years
Weighted average life expectancy–inactive participants	9.5 years	9.7 years

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

12. POST-RETIREMENT BENEFITS OBLIGATION, continued:

As of May 31, 2023, there were no active plan participants under the age of 65.

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

Year Ending May 31,

2024		\$	252,207
2025			249,852
2026			246,795
2027			239,572
2028			232,134
2029-2033			988,290
			988,290
		\$	2,208,850

13. NET ASSETS:

Net assets with donor restrictions:

	<u>May 31,</u>	
	<u>2023</u>	<u>2022</u>
Purpose restrictions:		
Scholarships	\$ 28,543,024	\$ 29,745,003
Capital projects, plant maintenance, and improvements	28,505,993	17,911,587
Educational programs	2,563,314	3,808,185
Faculty positions and development	2,811,216	3,358,007
Other	5,020,049	4,724,459
	67,443,596	59,547,241
Time restrictions:		
Future interest in remainder interests held by WatersEdge	111,402	140,632
Total net assets restricted by time or purpose	67,554,998	59,687,873

(continued)

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

13. NET ASSETS, continued:

Net assets with donor restrictions, continued:

	May 31,	
	2023	2022
Perpetual in nature:		
Held by University for student loan programs and scholarships	199,742	199,742
Invested at WatersEdge:		
Scholarships	41,557,303	40,709,203
Faculty positions and development	9,761,483	9,661,772
Educational programs	3,482,837	3,487,537
Plant maintenance and improvement	969,475	969,475
Other	2,575,252	2,570,318
	58,346,350	57,398,305
Beneficial interest held by WatersEdge:		
Scholarships	26,800,449	26,887,288
Undesignated	18,970,588	17,741,115
Faculty positions and development	6,998,011	7,161,488
Educational programs	7,299,555	7,567,182
Other	1,275,760	1,242,381
	61,344,363	60,599,454
Beneficial interest held by others:		
Scholarships	3,626,629	3,189,839
Lectureships, educational programs, and faculty positions	477,910	508,303
Undesignated	212,022	226,770
	4,316,561	3,924,912
Future interest in remainder interests held by WatersEdge that are perpetual in nature	380,107	607,170
Total net assets perpetual in nature	124,587,123	122,729,583
Total net assets with donor restrictions	\$ 192,142,121	\$ 182,417,456

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

14. NET TUITION AND FEES:

Net tuition and fees consist of the following:

	Year Ended May 31,	
	2023	2022
Tuition	\$ 35,762,881	\$ 38,411,703
Fees	4,653,335	5,076,062
Gross tuition and fees	40,416,216	43,487,765
Less scholarships funded from operations	(21,335,883)	(22,280,906)
Less scholarships funded by endowment income	(3,693,192)	(3,678,651)
Net tuition and fees	\$ 15,387,141	\$ 17,528,208

15. TULSA ROYALTIES COMPANY:

The value of the mineral interests held by the Company are \$15,393,692 and \$11,006,690, respectively, as of May 31, 2023 and 2022, 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 \$3,080,500 and \$2,293,500, respectively, for the years ended May 31, 2023 and 2022. 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.

16. 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,	
	2023	2022
Unrealized/realized gains on investments	\$ 5,352,938	\$ 4,687,709
Distributions from funds held by others	4,283,321	3,818,504
Distributions from beneficial interests	2,626,279	2,501,244
Interest, dividends, and other	1,187,805	688,296
Mineral income	1,037,726	888,437
	\$ 14,488,069	\$ 12,584,190

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

17. 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, 2023						
	Program Activities:			Supporting Activities:			
	Educational Activities	Student Services	Auxiliaries	Administrative Support	Operation & Maintenance	Fundraising	2023 Total Expense
Salaries and wages	\$ 8,180,425	\$ 4,597,291	\$ 509,671	\$ 2,837,477	\$ 987,121	\$ 750,137	\$ 17,862,122
Employee benefits	1,501,527	839,861	72,631	1,430,001	212,737	129,997	4,186,754
Services, supplies, and other	2,096,310	4,465,164	4,662,728	3,739,980	559,971	762,199	16,286,352
Occupancy and maintenance	3,225,942	1,981,929	4,458,258	205,657	150,843	46,809	10,069,438
Depreciation	1,183,817	665,640	1,577,616	73,904	55,897	17,346	3,574,220
Interest	31,966	117,328	633,347	20,183	67,168	-	869,992
	<u>16,219,987</u>	<u>12,667,213</u>	<u>11,914,251</u>	<u>8,307,202</u>	<u>2,033,737</u>	<u>1,706,488</u>	<u>52,848,878</u>
Facilities operation and maintenance	673,594	378,751	897,666	73,857	(2,033,737)	9,869	-
Total expenses	<u>\$ 16,893,581</u>	<u>\$ 13,045,964</u>	<u>\$ 12,811,917</u>	<u>\$ 8,381,059</u>	<u>\$ -</u>	<u>\$ 1,716,357</u>	<u>\$ 52,848,878</u>

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2022 and 2021

17. FUNCTIONAL ALLOCATION OF EXPENSE, continued:

	Year Ended May 31, 2022					
	Program Activities:		Supporting Activities:			
Educational Activities	Student Services	Auxiliaries	Administrative Support	Operation & Maintenance	Fundraising	2022 Total Expense
Salaries and wages	\$ 8,105,587	\$ 4,342,725	\$ 514,068	\$ 2,453,121	\$ 868,128	\$ 16,859,387
Employee benefits	1,431,193	809,231	67,016	1,495,769	209,687	4,109,674
Services, supplies, and other	1,763,708	3,914,991	3,151,537	3,261,558	548,553	13,025,923
Emergency grant aid to students*	-	2,649,395	-	-	-	2,649,395
Occupancy and maintenance	1,136,590	693,610	1,683,674	64,493	50,662	3,644,750
Depreciation	1,240,925	693,883	1,653,721	77,469	58,594	3,742,775
Interest	41,722	117,215	634,234	-	68,093	861,264
	<u>13,719,725</u>	<u>13,221,050</u>	<u>7,704,250</u>	<u>7,352,410</u>	<u>1,803,717</u>	<u>44,893,168</u>
Facilities operation and maintenance	598,026	334,396	796,961	65,572	(1,803,717)	-
Total expenses	<u>\$ 14,317,751</u>	<u>\$ 13,555,446</u>	<u>\$ 8,501,211</u>	<u>\$ 7,417,982</u>	<u>\$ -</u>	<u>\$ 44,893,168</u>

*Emergency grant aid to students includes student scholarships funded by HEERF funding in the amount of \$2,649,395.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

18. RETIREMENT PLAN:

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 year ended May 31, 2023, were approximately \$226,000. The pension contribution was suspended for the year ended May 31, 2022.

19. 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.

20. RISKS AND UNCERTAINTIES:

The University was the recipient of funding under the CARES Act for the Higher Education Emergency Relief Fund (HEERF). The University was allocated approximately \$2.6 million to provide emergency grants to students during the year ended May 31, 2022. In addition, the University received approximately \$2.6 million in funding to assist with lost revenue in tuition, fees, room and board due to the pandemic. As of May 31, 2022, the University recognized the entire amount as revenue. HEERF grants related to institutional assistance for approximately \$234,000 were also received. The amounts are included in government grants related to COVID-19 without donor restrictions on the consolidated statements of activities. The University did not have any HEERF funding for the year ended May 31, 2023.

In July 2023, the University received \$5.7 million in funds from the federal government related to our Employee retention tax credit filing (ERTC). These amounts were fully accrued as income in the consolidated statement of activities and as a receivable in the statement of financial position as of May 31, 2023. The ERTC filing comprised of amended payroll filings for the first three quarters of the calendar year 2021. The amounts for 1Q, 2Q & 3Q 2021 were \$1.95 million, \$1.96 million and \$1.79 million respectively. The statute of limitations for these funds to be audited by the Internal Revenue Service is generally three years. However, under IRC section 7405(b), the timeframe for the 3Q 2023 ERTC filing was extended an additional 2 years to April 15, 2027.

OKLAHOMA BAPTIST UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023 and 2022

21. RELATED PARTIES:

In accordance with Department of Education's regulations at 34 CFR 668.23(d)(1), the University has three related party transactions to disclose for the years ending May 31, 2023 and 2022.

OBU was created by action of the Baptist General Convention of Oklahoma (Oklahoma Baptists) in 1909 to function as an independent, nonprofit University under the supervision of a board of trustees elected by Oklahoma Baptists. Oklahoma Baptists established a Cooperative Program in which receipts are distributed to affiliated entities. For the years ending May 31, 2023 and 2022, OBU received \$2,408,675 and \$2,401,700 respectively from the Cooperative Program, all of which were recorded in the consolidated statements of activities.

The Oklahoma Baptist University Authority (the Authority) was created as a public trust and an agency of the City of Shawnee on February 28, 1969, under the provisions of Title 60, Oklahoma Statutes 1981, the Oklahoma Trust Act, and other applicable statutes and laws. The Authority was created to promote the development of OBU and as such has issued notes payable to construct, remodel, or purchase buildings and equipment on the campus of OBU. OBU pays the Authority funds sufficient to meet the annual debt service requirements of the outstanding notes. The Oklahoma Baptists guarantees all the outstanding notes issued by the Authority. See Note 10 for a detailed description of the outstanding notes.

The Baptist Foundation of Oklahoma, dba WatersEdge Ministry Services (WatersEdge) is a private nonprofit religious association chartered by the State of Oklahoma on October 31, 1946. Its creation was approved by the Oklahoma Baptists to administer funds and property received for investment purposes to promulgate the furtherance of the Oklahoma Baptists. As an affiliated entity, WatersEdge administers invested assets on behalf of OBU in both a custodial and trustee capacity. For the years ending May 31, 2023 and 2022, invested assets administered at WatersEdge were \$204,513,106 and \$196,772,992 respectively.

WatersEdge leases office space on the OBU campus under a lease contract. For the years ending May 31, 2023 and 2022, OBU recorded \$14,464 and \$13,167 respectively as Auxiliary service revenue on the consolidated statements of activities.

22. SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 10, 2023, which is the date the consolidated financial statements were available to be issued.