

# OHIO NORTHERN UNIVERSITY

**Independent Auditor's Report and Consolidated Financial Statements**  
May 31, 2018 and 2017

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# Ohio Northern University

May 31, 2018 and 2017

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## Independent Auditor's Report

Board of Trustees  
Ohio Northern University  
Ada, Ohio

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ohio Northern University (University), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

#### *Auditor's Responsibility*

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Northern University and its subsidiaries as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 2 of the financial statements, in 2018, the University adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The University has restated its 2017 financial statements to retrospectively apply the change in accounting principle. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated October 17, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**BKD, LLP**

Fort Wayne, Indiana  
October 17, 2018

**Ohio Northern University**  
**Consolidated Statements of Financial Position**  
**May 31, 2018 and 2017**

	<b>2018</b>	<b>2017 (Restated)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,531,901	\$ 7,324,000
Student accounts receivable, net of allowance of \$1,465,013 in 2018 and \$1,370,528 in 2017	1,585,242	1,300,457
Contributions receivable, net of allowance of \$100,000 in 2018 and \$128,694 in 2017	4,156,887	5,942,671
Other receivables	1,973,460	3,408,995
Cash equivalents and investments restricted for loans and long-lived asset purchases	4,668,213	3,920,884
Inventories	342,415	321,371
Prepaid expenses	1,243,899	1,176,259
Investments	169,246,310	165,374,571
Notes receivable, net of allowance of \$58,072 in 2018 and \$51,000 in 2017	11,496,602	10,992,722
Assets held in charitable remainder trusts	1,268,663	1,501,413
Property and equipment	130,304,324	129,738,458
Cash value of life insurance	845,833	802,315
Beneficial interest in remainder trusts	3,446,391	3,377,544
Beneficial interest in perpetual trusts	15,327,868	7,736,977
	<b>\$ 349,438,008</b>	<b>\$ 342,918,637</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 5,114,058	\$ 3,821,310
Accrued expenses	7,336,339	8,669,799
Deferred revenue and deposits	5,831,912	3,862,594
Long-term debt	56,187,845	56,073,805
Annuities and trusts payable	2,108,485	2,209,773
Postretirement medical benefits	12,744,079	13,147,549
Other	587,578	642,514
U.S. Government refundable advances	9,207,780	9,271,774
Total liabilities	99,118,076	97,699,118
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	37,670,276	44,907,491
Designated by the Board for endowment	4,385,316	4,018,520
Designated by the Board for capital acquisition	3,000,000	3,000,000
	45,055,592	51,926,011
With donor restrictions		
Perpetual in nature	97,780,625	94,883,511
Purpose restriction	82,284,770	80,034,002
Time-restricted for future periods	6,538,494	8,000,003
Trusts, charitable gift annuities and other activities	20,174,275	12,902,457
Underwater endowments	(1,513,824)	(2,526,465)
	205,264,340	193,293,508
Total net assets	250,319,932	245,219,519
Total liabilities and net assets	<b>\$ 349,438,008</b>	<b>\$ 342,918,637</b>

**Ohio Northern University**  
**Consolidated Statement of Activities**  
**Year Ended May 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Income and Other Support</b>			
Tuition and fees	\$ 96,535,462	\$ -	\$ 96,535,462
Less scholarships and aid	(48,085,168)	-	(48,085,168)
Net tuition and fees	48,450,294	-	48,450,294
Gifts and bequests	1,313,874	1,082,130	2,396,004
Grants and contracts	2,658,489	12,053	2,670,542
Investment return designated for operations	10,908,308	2,678,182	13,586,490
Investment income from trusts held by others	332,335	215,492	547,827
Other investment income	45,942	-	45,942
Other	1,583,716	-	1,583,716
Auxiliary enterprises	20,195,049	-	20,195,049
Net assets released from restrictions for operating items	2,739,767	(2,739,767)	-
Total revenue, income and other support	<u>88,227,774</u>	<u>1,248,090</u>	<u>89,475,864</u>
<b>Expenses</b>			
Instruction	39,431,518	-	39,431,518
Sponsored programs	1,967,280	-	1,967,280
Academic support	3,929,093	-	3,929,093
Libraries	3,026,640	-	3,026,640
Student services	12,195,850	-	12,195,850
Auxiliary	20,848,749	-	20,848,749
Total educational activities	81,399,130	-	81,399,130
Institutional support	8,518,515	-	8,518,515
Fundraising	1,777,592	-	1,777,592
Total expenses	<u>91,695,237</u>	<u>-</u>	<u>91,695,237</u>
<b>Change in Net Assets Before Other Revenue (Expenses)</b>	<u>(3,467,463)</u>	<u>1,248,090</u>	<u>(2,219,373)</u>
<b>Other Revenue (Expenses)</b>			
The Inn remediation	(116,801)	-	(116,801)
Gifts restricted for endowment	-	2,539,020	2,539,020
Gifts restricted for acquisition of long-lived assets	-	951,828	951,828
Investment return less amounts designated for operations	350,937	1,044,150	1,395,087
Change in value of split-interest agreements	-	(187,698)	(187,698)
Actuarial adjustment to postretirement medical benefit liability	(4,482,621)	-	(4,482,621)
Change in asset retirement obligation	(61,789)	-	(61,789)
Loss on extinguishment of debt	(560,972)	-	(560,972)
Change in beneficial interest in perpetual trusts	42,287	7,801,445	7,843,732
Satisfaction of capital acquisition restrictions	1,426,003	(1,426,003)	-
Total other revenue (expenses)	<u>(3,402,956)</u>	<u>10,722,742</u>	<u>7,319,786</u>
<b>Change in Net Assets</b>	(6,870,419)	11,970,832	5,100,413
<b>Net Assets, Beginning of Year</b>	<u>51,926,011</u>	<u>193,293,508</u>	<u>245,219,519</u>
<b>Net Assets, End of Year</b>	<u>\$ 45,055,592</u>	<u>\$ 205,264,340</u>	<u>\$ 250,319,932</u>

**Ohio Northern University**  
**Consolidated Statement of Activities**  
**Year Ended May 31, 2017 (Restated)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, Income and Other Support</b>			
Tuition and fees	\$ 93,955,918	\$ -	\$ 93,955,918
Less scholarships and aid	(46,465,338)	-	(46,465,338)
Net tuition and fees	47,490,580	-	47,490,580
Gifts and bequests	2,491,764	1,139,140	3,630,904
Grants and contracts	3,260,717	53,246	3,313,963
Investment return designated for operations	10,813,156	2,533,389	13,346,545
Investment income from trusts held by others	151,751	1,002,291	1,154,042
Other investment income	39,684	-	39,684
Other	1,243,897	-	1,243,897
Auxiliary enterprises	20,096,558	-	20,096,558
Net assets released from restrictions for operating items	3,133,983	(3,133,983)	-
Total revenue, income and other support	<u>88,722,090</u>	<u>1,594,083</u>	<u>90,316,173</u>
<b>Expenses</b>			
Instruction	39,751,612	-	39,751,612
Sponsored programs	2,530,803	-	2,530,803
Academic support	3,632,030	-	3,632,030
Libraries	3,117,497	-	3,117,497
Student services	12,739,495	-	12,739,495
Auxiliary	20,406,609	-	20,406,609
Total educational activities	82,178,046	-	82,178,046
Institutional support	7,992,963	-	7,992,963
Fundraising	1,623,333	-	1,623,333
Total expenses	<u>91,794,342</u>	<u>-</u>	<u>91,794,342</u>
<b>Change in Net Assets Before Other Revenue (Expenses)</b>	<u>(3,072,252)</u>	<u>1,594,083</u>	<u>(1,478,169)</u>
<b>Other Revenue (Expenses)</b>			
The Inn remediation	84,406	-	84,406
Gifts restricted for endowment	7,100	2,955,283	2,962,383
Gifts restricted for acquisition of long-lived assets	-	3,882,535	3,882,535
Investment return less amounts designated for operations	313,384	3,665,312	3,978,696
Change in value of split-interest agreements	-	71,787	71,787
Actuarial adjustment to postretirement medical benefit liability	(4,218,416)	-	(4,218,416)
Change in asset retirement obligation	384,612	-	384,612
Change in beneficial interest in perpetual trusts	(56,445)	538,594	482,149
One-time restructuring expenses	(372,652)	-	(372,652)
Satisfaction of capital acquisition restrictions	1,451,453	(1,451,453)	-
Total other revenue (expenses)	<u>(2,406,558)</u>	<u>9,662,058</u>	<u>7,255,500</u>
<b>Change in Net Assets</b>	(5,478,810)	11,256,141	5,777,331
<b>Net Assets, Beginning of Year, as Previously Reported</b>	52,836,189	186,605,999	239,442,188
<b>Restatement Related to Adoption of ASU 2014-14 (Note 2)</b>	<u>4,568,632</u>	<u>(4,568,632)</u>	<u>-</u>
<b>Net Assets, Beginning of Year, Restated</b>	<u>57,404,821</u>	<u>182,037,367</u>	<u>239,442,188</u>
<b>Net Assets, End of Year</b>	<u>\$ 51,926,011</u>	<u>\$ 193,293,508</u>	<u>\$ 245,219,519</u>





**Ohio Northern University**  
**Consolidated Statements of Cash Flows**  
**May 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Change in net assets	\$ 5,100,413	\$ 5,777,331
Items not requiring (providing) operating activities cash flows		
Depreciation	7,607,544	7,551,108
Amortization of bond origination costs	51,579	54,213
Expense of bond origination costs due to refinance	560,972	-
Change in allowance for doubtful accounts	72,863	371,211
Net realized and unrealized gains on investments	(11,575,544)	(14,287,146)
Loss on sale of property and equipment	5,117	275,991
Gain on beneficial interest in perpetual trust	(7,590,891)	(346,498)
Contributions restricted for long-term investment	(2,502,137)	(2,763,361)
Contributions restricted for acquisition of long-lived assets	(2,490,350)	(3,882,535)
Changes in		
Student accounts receivable	(379,270)	(99,880)
Contributions receivable	1,814,478	2,168,678
Other receivables	1,435,535	(697,820)
Inventories	(21,044)	(26,597)
Prepaid expenses and other assets	(67,640)	154,957
Beneficial interest in remainder trusts	163,903	71,583
Accounts payable	1,292,748	854,158
Accrued expenses	(1,333,460)	741,551
Deferred revenue and deposits	1,969,318	752,730
Annuities and trusts payable	(101,288)	(744,440)
Postretirement medical benefits	(403,470)	(314,332)
Other liabilities	(54,936)	(427,195)
Net cash used in operating activities	<u>(6,445,560)</u>	<u>(4,816,293)</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(8,203,235)	(4,776,068)
Increase in notes receivable	(510,952)	(182,960)
Purchases of investments	(99,904,925)	(57,632,799)
Proceeds from sales and maturities of investments	107,608,730	62,174,664
Proceeds from sale of fixed assets	24,708	69,532
(Increase) decrease in cash equivalents and investments restricted for loans and long-lived asset purchases	(747,329)	492,910
(Increase) decrease in cash value of life insurance	(43,518)	55,760
Net cash (used in) provided by investing activities	<u>(1,776,521)</u>	<u>201,039</u>
<b>Financing Activities</b>		
Principal payments on bonds	(34,436,621)	(3,325,000)
Issuance of new debt	34,511,534	-
Bond origination costs on new debt	(573,424)	-
Proceeds from contributions restricted for long-term investment	2,502,137	2,763,361
Proceeds from contributions restricted for acquisition of long-lived assets	2,490,350	3,882,535
Decrease in U.S. Government refundable advances	(63,994)	(337,846)
Net cash provided by financing activities	<u>4,429,982</u>	<u>2,983,050</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(3,792,099)	(1,632,204)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,324,000</u>	<u>8,956,204</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,531,901</u>	<u>\$ 7,324,000</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 1,821,382	\$ 1,841,172

# **Ohio Northern University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2018 and 2017**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Ohio Northern University (University) is a private, United Methodist Church-related university in Ada, Ohio, comprised of the Colleges of Arts & Sciences, Business Administration, Engineering, Pharmacy and Law. The University draws a large percentage of the undergraduate student body from the state of Ohio, while a large percentage of law students are from outside Ohio. The University's primary sources of revenue and support are tuition income, auxiliary revenue, contributions and investment income.

The Inn at Ohio Northern University Management Company (The Inn) is a wholly-owned subsidiary that furnishes the University the managerial, supervisory, administrative and support services relating to the hotel owned by the University. Under the terms of a management agreement, the Company is reimbursed by the University for all actual and direct expenses incurred in connection with the operation of the hotel.

Polar Enterprises is a not-for-profit corporation that operates an entrepreneurship program that educates students by providing them hands on experience in operating a student-run business.

##### ***Principles of Consolidation***

The consolidated financial statements include the accounts of Ohio Northern University, The Inn and Polar Enterprises. All significant inter-organizational accounts and transactions have been eliminated in consolidation.

##### ***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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### ***Cash Equivalents***

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2018 and 2017, cash equivalents consisted primarily of money market funds.

At May 31, 2018, the University's cash accounts which are held at multiple financial institutions exceeded federally insured limits by approximately \$5,300,000. The University does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

Cash and cash equivalents related to uninvested cash are considered part of investments in the accompanying financial statements.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

#### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at fair value. Investment return includes dividend, interest and other investment income; and realized and unrealized gains and losses on investments are carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowment accounts based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

#### ***Student Accounts and Notes Receivable***

Student accounts receivable are stated at the amount billed to students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the term unless the student has a payment plan. Charges that are past due without payments for three consecutive months, and have had no response to the due diligence process, are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist primarily of amounts due under the Federal Perkins Loan Program and Health Professions Student Loan Program and are stated at their outstanding principal amounts. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student. Loans with a delinquent balance and still accruing interest amounted to approximately \$1,120,000 and \$1,135,000 at May 31, 2018 and 2017, respectively.

#### ***Inventories***

Inventories consist primarily of supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

#### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. The cost of repairs and maintenance is generally charged to expense in the year incurred.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	30-50 years
Land improvements	40-50 years
Equipment, furniture, fixtures and vehicles	5-10 years

#### ***Bond Origination Costs and Debt Premium***

Costs incurred in obtaining long-term financing are deferred and amortized over the term of the related borrowing. Premiums related to the University's long-term debt are accreted over the term of the related debt.

#### ***Collections***

All collections of works of art, historical treasures and similar assets are capitalized. The University received donations of various works of art in past years. The collection includes approximately 400 items and is displayed in several locations on campus. Items added to the collections are capitalized at costs if purchased or at estimated fair value on the acquisition date if donated. Collection items sold or removed are reported as gains or losses without donor restrictions or with donor restrictions depending on donor stipulations, if any, placed on the items at the time of acquisition.

It is the policy of the University to recognize contributions of works of art as a capitalized asset because the items are held for public exhibition rather than financial gain. However, such works of art are not subject to depreciation. Standard University procedures are used in accessioning, deaccessioning, cataloging and managing objects. The University provides a clean, safe and stable storage environment for its collections. There were no deaccessions in 2018 or 2017.

#### ***Deferred Revenue***

Deferred revenue consists primarily of student tuition, housing and other fees received prior to the beginning of an academic term, as well as the unamortized portion of an investment by Sodexo related to capital improvements for dining service facilities.

#### ***Net Assets***

The University's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as without donor restrictions and with donor restrictions as follows:

- *Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. The net asset without donor restrictions class included general and Board-designated assets and liabilities of the University and may be used at the discretion of management to support the University's purposes and operations.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

- *Net Assets with Donor Restrictions* – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time or are to be maintained in perpetuity by the University. Unconditional promises to give that are due in future periods are classified as net assets with donor restrictions. Generally, the donors of assets with donor restrictions permit the University to use all or part of the income earned on related investments for general or specific purposes. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

#### **Contributions**

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service. Contributions of cash or other assets to be used to acquire land, building and equipment with donor-imposed use are considered to be released at the time of acquisition of such long-lived assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

#### **Government Grants**

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

#### **Split-Interest Agreements**

Funds held in trust by others for the benefit of the University are recorded at fair value based on the University's share of the trust.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

Irrevocable charitable remainder unitrusts held by others are recorded as a contribution in the year the trust is established. The contribution is recorded at the fair value of the trust assets less the present value of the estimated future cash payments to the beneficiaries.

#### **Income Taxes**

The University and Polar Enterprises are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the University and Polar Enterprises are subject to federal income tax on any unrelated business taxable income. The Inn is a for-profit company that furnishes the University the managerial, supervisory, administrative and support services relating to the hotel owned by the University.

The University files tax returns in the U.S. federal jurisdiction. With a few exceptions, the University is no longer subject to U.S. federal, state or local or non-U.S. income tax examinations by tax authorities for years before 2014. Accordingly, no provision for income taxes has been made. The University did engage in activities unrelated to its exempt purpose, however, the University did not incur any unrelated business income tax expense in the years ended May 31, 2018 and 2017. The University is also exempt from state income taxes.

#### **Compensated Absences**

Full-time employees, excluding faculty, earn 20 days of vacation each year, which is accrued on a per pay basis. The employee may accumulate a maximum of one time over their current monthly accrual on an annualized basis, in accordance with the leave policy. Employees may be paid for unused vacation leave at their current rate of pay upon termination of service. The University accrues costs for vacation leave as obligations of net assets without donor restrictions. At May 31, 2018 and 2017, the University had an accrual of \$1,155,338 and \$1,071,779, respectively, for unused vacation leave. There is no accrual for sick pay.

#### **Functional Allocation of Expenses**

The costs of supporting various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs (primarily depreciation, interest, facilities operations and maintenance, insurance and utilities) have been allocated among the educational, institutional support and fundraising categories based on applicable direct usage of assets, related debt or allocated on a square footage basis.

#### **Note 2: Changes in Accounting Principle**

During 2018, the University adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This adoption had no impact on the total change in net assets for the year-ended May 31, 2017. A summary of the changes by financial statement area is as follows:

##### ***Statement of financial position:***

- The statement of financial position distinguishes between two new classes of net assets — those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from previously reported required classification as unrestricted net assets.

**Statement of activities:**

- The standard requires the University to report expenses by both nature and function, either in the statement of activities, as a separate statement or within the notes.
- Investment income is shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

**Notes to the financial statements:**

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.
- Provide disclosures on amounts and purposes of governing Board or self-imposed designations and appropriations as of the end of the period.
- Previously, the “underwater” portion of donor-restricted endowments was classified within net assets without donor restrictions. The provisions of the new standard require this deficit to be reclassified to net assets with donor restrictions.

Net assets relating to these items have been restated as of June 1, 2016. The following financial statement line items for 2017 were affected by the restatements:

<b>Statement of Financial Position</b>	<b>As Previously Reported June 1, 2016</b>	<b>Restated June 1, 2016</b>	<b>Restatement</b>
<b>Net Assets</b>			
Without donor restriction	\$ 52,836,189	\$ 57,404,821	\$ 4,568,632
With donor restriction	186,605,999	182,037,367	(4,568,632)
 Total net assets	 \$ 239,442,188	 \$ 239,442,188	 \$ -

<b>Statement of Activities</b>	<b>As Previously Reported, May 31, 2017</b>	<b>Restated, May 31, 2017</b>	<b>Restatement</b>
Transfer for underwater endowment assets without donor restriction	\$ 2,042,167	\$ -	\$ (2,042,167)
Transfer for underwater endowment assets with donor restriction	(2,042,167)	-	2,042,167
 Total net assets	 \$ -	 \$ -	 \$ -

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Statement of Financial Position	As Previously Reported, May 31, 2017	Restated, May 31, 2017	Restatement
<b>Net Assets</b>			
Without donor restriction	\$ 49,399,546	\$ 51,926,011	\$ 2,526,465
With donor restriction	195,819,973	193,293,508	(2,526,465)
Total net assets	<u>\$ 245,219,519</u>	<u>\$ 245,219,519</u>	<u>\$ -</u>

**Note 3: Contributions Receivable**

Contributions receivable at May 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 1,936,626	\$ 2,046,949
Due one to five years	2,227,495	3,926,130
Due after five years	151,956	187,694
	<u>4,316,077</u>	<u>6,160,773</u>
Less allowance for uncollectible contributions	(100,000)	(128,694)
Less present value discount	<u>(59,190)</u>	<u>(89,408)</u>
	<u>\$ 4,156,887</u>	<u>\$ 5,942,671</u>

Discount rates ranged from 0.26 percent to 3.10 percent for 2018 and 2017.

**Note 4: Investments and Investment Return**

Investments at May 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash and money market funds	\$ 10,105,098	\$ 2,233,432
Common stocks	7,407,993	6,263,142
U.S. Government and agency obligations	592,548	406,381
Corporate debt securities	615,096	666,368
Equity mutual funds		
International markets	35,925,434	40,897,550
Large cap blend and growth	37,143,364	41,327,738
Small and mid-cap	5,402,191	5,472,906
Fixed income mutual funds	29,581,111	32,555,731
Alternative investments		
Common trust funds	4,088,063	3,920,235
Multi-strategy hedge funds	4,217,865	3,915,073
Private equity funds	33,206,580	25,466,564
Real estate investment funds	899,722	2,188,206
Land held for sale	<u>61,245</u>	<u>61,245</u>
	<u>\$ 169,246,310</u>	<u>\$ 165,374,571</u>



**Ohio Northern University**  
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The University's net assets with donor restrictions include various endowment funds established by donors. At May 31, 2018, the fair value of the assets of some of these funds was \$1,513,824 less than the level required by donor stipulation or law.

Total investment return is comprised of the following:

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating</b>			
Endowment income and gains distributed	\$ 10,908,308	\$ 2,678,182	\$ 13,586,490
Total operating	<u>10,908,308</u>	<u>2,678,182</u>	<u>13,586,490</u>
<b>Nonoperating</b>			
Interest and dividend income (net of expenses)	3,406,033	-	3,406,033
Net realized and unrealized gains	7,853,212	3,722,332	11,575,544
Investment return designated for current operations	<u>(10,908,308)</u>	<u>(2,678,182)</u>	<u>(13,586,490)</u>
Total nonoperating	<u>350,937</u>	<u>1,044,150</u>	<u>1,395,087</u>
Total return on investments	<u>\$ 11,259,245</u>	<u>\$ 3,722,332</u>	<u>\$ 14,981,577</u>

	<b>2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating</b>			
Endowment income and gains distributed	\$ 10,813,156	\$ 2,533,389	\$ 13,346,545
Total operating	<u>10,813,156</u>	<u>2,533,389</u>	<u>13,346,545</u>
<b>Nonoperating</b>			
Interest and dividend income (net of expenses)	3,038,095	-	3,038,095
Net realized and unrealized gains	8,088,445	6,198,701	14,287,146
Investment return designated for current operations	<u>(10,813,156)</u>	<u>(2,533,389)</u>	<u>(13,346,545)</u>
Total non-operating	<u>313,384</u>	<u>3,665,312</u>	<u>3,978,696</u>
Total return on investments	<u>\$ 11,126,540</u>	<u>\$ 6,198,701</u>	<u>\$ 17,325,241</u>

Cash equivalents and investments are restricted for the following at May 31:

	<b>2018</b>	<b>2017</b>
Capital projects and debt service	\$ 2,640,923	\$ 934,942
Loan funds	<u>2,027,290</u>	<u>2,985,942</u>
Total	<u>\$ 4,668,213</u>	<u>\$ 3,920,884</u>

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**Alternative Investments**

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at May 31:

	<b>May 31, 2018</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Private common trust funds (A)	\$ 4,088,063	\$ -	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	4,217,865	-	Monthly-Quarterly	30-90 days
Private equity funds (C)	33,206,580	26,523,900	Nonredeemable	N/A
Real estate investment funds (D)	899,722	8,000,000	Nonredeemable	N/A

  

	<b>May 31, 2017</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Private common trust funds (A)	\$ 3,920,235	\$ -	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	3,915,073	-	Monthly-Quarterly	30-90 days
Private equity funds (C)	25,466,564	24,692,694	Nonredeemable	N/A
Real estate investment funds (D)	2,188,206	8,000,000	Nonredeemable	N/A

- (A) This category includes investments in private common trust funds that invest primarily in U.S. common stocks. Management of these funds can employ a variety of strategies; however, the trust funds primarily are designed to track certain broad market indices. These investments can be redeemed and there are no restrictions outside of the normal redemption frequency terms at May 31, 2018.
- (B) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in various private investment funds that employ various long/short, macro-driven, absolute return, arbitrage and event-driven strategies. These investments can be redeemed and there are no restrictions outside of the normal redemption terms at May 31, 2018.
- (C) This category includes several private equity funds that invest in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities and other obligations of distressed businesses and financially troubled companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the fund. It is estimated the underlying assets of the funds will be liquidated over the next one to seven years. Pursuant to fund agreements, the University has committed to fund future capital calls on these funds totaling \$26,523,900 and \$24,692,694 at May 31, 2018 and 2017, respectively. Subsequent to May 31, 2018, the University paid \$302,604 to fund capital calls.

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(D) This category includes two real estate funds that invest primarily in U.S. Commercial real estate. The fair values of the investments in this category have been estimated using the net asset value (or its equivalent) of the University's ownership interest in partners' capital. One of the funds can never be redeemed. Distributions from this fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets for this fund will be liquidated over the next five to seven years. The remaining fund is indefinitely gated due to impairment and the value reflected in the financial statements is nominal at May 31, 2018 and 2017. Pursuant to fund agreements, the University has committed to fund future capital calls on the one fund totaling \$8,000,000 at May 31, 2018 and 2017. Subsequent to May 31, 2018, the University paid \$0 to fund capital calls.

**Note 5: Notes Receivable**

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan program, Health Professions Student Loan program (HPSL) and Nursing Student Loan program (NSL). The availability of funds under these three federal loan programs is dependent on reimbursement to the loan fund from repayments on outstanding loans. Funds advanced by the federal government totaled \$9,207,780 and \$9,271,772 as of May 31, 2018 and 2017, respectively. These advances are ultimately refundable to the federal government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans canceled under the program result in a reduction of funds available for future loans and a decrease in the University's liability to the federal government. These loan amounts represent 2.6 percent and 2.7 percent of total assets as of May 31, 2018 and 2017, respectively.

The University also makes uncollateralized loans to students and student organizations through institutional loan funds. The loans to students are generally based on financial need. The loans to student organizations are typically secured by certain property for which the loans were made.

Allowances for doubtful accounts are established based on current economic factors and specific circumstances of the borrower which, in management's judgment, could influence the ability of the borrower to repay the amounts per the loan terms. For the federal loan programs, the federal government bears the risk of loss of uncollectible loans provided the University performs required collection due diligence procedures, therefore affecting the determination of the needed allowance for losses. The University does not stop the accrual of interest until a loan is written off, therefore, the University has no loans on nonaccrual status.

Categories of loans at May 31 include:

	<u>2018</u>	<u>2017</u>
Student loans receivable		
Federal government programs	\$ 9,183,946	\$ 8,822,548
Institutional programs	2,370,728	2,221,175
Total student loans receivable	<u>11,554,674</u>	<u>11,043,723</u>
Less allowance for doubtful accounts		
Balance, beginning of year	(51,000)	(56,000)
Provision charged to income (expense)	<u>(7,072)</u>	<u>5,000</u>
Balance, end of year	<u>(58,072)</u>	<u>(51,000)</u>
Net loans receivable	<u>\$ 11,496,602</u>	<u>\$ 10,992,723</u>

**Ohio Northern University**  
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**Note 6: Property and Equipment**

Property and equipment are summarized as follows at May 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 8,159,275	\$ 8,159,275
Land improvements	9,215,164	8,459,046
Buildings	202,578,374	198,658,748
Equipment, furniture, fixtures and vehicles	20,695,536	18,623,539
Collections	1,864,029	1,864,029
Construction in progress	<u>2,356,064</u>	<u>947,870</u>
	244,868,442	236,712,507
Less accumulated depreciation	<u>(114,564,118)</u>	<u>(106,974,049)</u>
	<u>\$ 130,304,324</u>	<u>\$ 129,738,458</u>

The following construction commitments exist as of May 31:

	<u>2018</u>	<u>2017</u>
New Engineering Education Building	\$ 25,102,032	\$ -
New Information Technology Building	1,538,885	-
Demolition of Clark Hall	205,500	-
Repurposing of Biggs Hall	<u>549,949</u>	<u>-</u>
	<u>\$ 27,396,366</u>	<u>\$ -</u>

**Note 7: Beneficial Interest in Remainder Trusts and Perpetual Trusts**

The University is the beneficiary under various charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive the net assets of these trusts at the end of the trust's term. The beneficial interest in these trusts is recorded at the present value of the expected future cash flows discounted at 3.2 percent and 2.4 percent for May 31, 2018 and 2017, respectively, and applicable mortality tables. The estimated value of the expected future cash flows is \$3,446,391 and \$3,377,544 at May 31, 2018 and 2017, respectively.

The University is also the beneficiary under various perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$15,327,868 and \$7,736,977, which represents the fair value of the trust assets at May 31, 2018 and 2017, respectively.

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**Note 8: Long-Term Debt**

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
2013 Economic Development Facilities Revenue Refunding Bonds Series A1, interest at fixed rate of 3.75%, through April 2024, then an estimated rate of 3.44%, maturing through May 2038, payable in annual installments ranging from \$160,000 to \$280,000	\$ 4,145,000	\$ 4,330,000
2013 Economic Development Facilities Revenue Refunding Bonds, Series A2, interest at fixed rate of 3.50%, through April 2021, then an estimated rate of 3.44%, maturing through May 2038, payable in annual installments ranging from \$520,000 to \$925,000	13,680,000	14,290,000
2013 Economic Development Facilities Revenue Refunding Bonds, Series B, interest at fixed rate of 2.37%, through April 2018. This borrowing was paid off in its entirety as a result of the 2018 debt issuance	-	21,055,000
2013 Economic Development Facilities Revenue Refunding Bonds, Series C, interest at fixed rate of 2.95%, maturing through May 2018, payable in annual installments ranging from \$910,000 to \$950,000	-	950,000
2014 Economic Development Facilities Revenue Refunding Bonds, interest rate at fixed rate of 3.30% through April 2021, then an estimated rate of 3.75%, maturing through May 2031, payable in annual installments ranging from \$128,379 to \$180,000, with a balloon payment of \$2,995,000 due in May 2031. As a result of the 2018 debt issuance, an accelerated principal payment of \$11,636,621 was made toward this debt balance in 2018.	4,828,379	16,465,000
2018 United States of America Notes acting through the Rural Housing Service of the United States Department of Agriculture, interest rate at fixed rate of 3.25% through April 2057, payable in annual installments ranging from \$449,798 to \$1,525,721	<u>34,511,534</u>	<u>-</u>
	57,164,913	57,090,000
Less: debt issuance costs	<u>(977,068)</u>	<u>(1,016,195)</u>
Total long-term debt	<u>\$ 56,187,845</u>	<u>\$ 56,073,805</u>

In connection with the issuance of the Series 2013 bonds, the University, as borrower, entered into a loan agreement with the issuer, County of Hardin, Ohio. Under the terms of the loan agreement, the University is required to make payments at such times and in such amounts (including principal, interest and premium, if any) so as to provide for the payment of the principal of premium, if any, and interest on the bonds outstanding. The University has pledged, assigned, conveyed, transferred, granted and ratified to the trustee, an assignee of the issuer, a first priority security interest in, general lien upon, the University's general receipts through a Master Indenture. The issuance of Series 2018 notes triggered an early extinguishment of unamortized bond origination costs for a portion of the Series 2013 bonds. The amount of unamortized bond origination costs was \$405,949 and is reflected as a non-operating loss on extinguishment of debt on the consolidated statement of activities. The amount of bond origination costs associated with the Series 2013 bonds is \$341,100 and \$782,116 at May 31, 2018 and 2017, respectively.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

In connection with the issuance of the Series 2014 bonds, the University, as borrower, entered into a loan agreement with the issuer, County of Hardin, Ohio. Under the terms of the loan agreement, the University is required to make payments at such times and in such amounts (including principal, interest and premium, if any) so as to provide for the payment of principal of, premium, if any, and interest on the bonds outstanding. The University has pledged, assigned, conveyed, transferred, granted and ratified to the trustee, an assignee of the issuer, a first priority security interest in, general lien upon, the University's general receipts through a Master Indenture. The issuance of Series 2018 notes triggered an early extinguishment of unamortized bond origination costs for a portion of the Series 2014 bonds. The amount of unamortized bond origination costs was \$155,023 and is reflected as a non-operating loss on extinguishment of debt on the consolidated statement of activities. The amount of bond origination costs associated with the Series 2014 bonds is \$63,740 and \$234,079 at May 31, 2018 and 2017, respectively.

In connection with the issuance of the Series 2018 notes, the University, as borrower, entered into a loan agreement with the issuer, United States of America, acting through the Rural Housing Service, United States Department of Agriculture. Under the terms of the loan agreement, the University is required to make payments at such times and in such amounts (including principal, interest and premium, if any) so as to provide for the payment of principal of, premium, if any, and interest on the notes outstanding. The University has pledged, assigned, conveyed, transferred, granted and ratified to the trustee, as assignee of the issuer, a first priority security interest in, general lien upon, the University's general receipts through a Master Indenture. The amount of debt issuance costs associated with the Series 2018 notes is \$572,328 at May 31, 2018.

On April 17, 2018, the University secured a construction loan of \$34,392,012 to fund the construction of a new Engineering education building, a new Information Technology building, the repurposing of Biggs Hall, and the demolition of Clark. As of May 31, 2018, no draws were made on the construction loan.

Aggregate annual principal payments required on bonds payable at May 31, 2018, are:

2019		\$ 1,783,177
2020		1,572,772
2021		1,628,625
2022		1,679,993
2023		1,741,893
Thereafter		<u>48,758,453</u>
		<u>\$ 57,164,913</u>

The bond payable agreements contain certain covenants, including continuation of use of University facilities for educational purposes, maintenance of insurance policies and availability of certain financial records. As of May 31, 2018 and 2017, the University is in compliance with these covenants.

Interest expense was \$1,903,886 and \$1,879,871 for the years ended May 31, 2018 and 2017, respectively.

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**Notes to Consolidated Financial Statements**  
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**Note 9: Annuities and Trusts Payable**

The University has been the recipient of many charitable gift annuities which require future payments to the donor or their named beneficiaries over the agreement's term (usually the designated beneficiary's lifetime). The assets received from the donor are recorded at fair value. The University has recorded a liability at May 31, 2018 and 2017, of \$1,403,869 and \$1,487,619, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2 percent to 10 percent and applicable mortality tables.

The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. The portion of the trust attributable to the future interest of the University is recorded in the consolidated statements of activities as contributions with donor restrictions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the University's consolidated statements of financial position. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The University has recorded a liability at May 31, 2018 and 2017, of \$704,616 and \$722,154, respectively. The present value of the estimated future payments is calculated using discount rates ranging from 5 percent to 10 percent and applicable mortality tables.

**Note 10: Postretirement Medical Benefits**

The University has a postretirement medical benefit plan (Plan) to provide for the payment of certain health care benefits for retired employees who meet certain eligibility requirements under the Plan. The University's policy is to pay the cost of these health benefits as they occur. The Plan is funded by the University through Healthcare Reimbursement Accounts (HRA) for each eligible post-Medicare retiree.

The University uses a May 31 measurement date for the Plan. Information about the Plan's funded status follows:

	<u>2018</u>	<u>2017</u>
Accumulated postretirement benefit obligation	\$ (12,744,079)	\$ (13,147,549)
Fair value of Plan assets	<u>-</u>	<u>-</u>
Funded status	<u>\$ (12,744,079)</u>	<u>\$ (13,147,549)</u>

Liabilities recognized in the consolidated statements of financial position:

	<u>2018</u>	<u>2017</u>
Accrued benefit liability	<u>\$ (12,744,079)</u>	<u>\$ (13,147,549)</u>

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Amounts recognized in net assets without donor restrictions not yet recognized as components of net periodic benefit cost consist of:

	<u>2018</u>	<u>2017</u>
Net loss	\$ 1,554,827	\$ 1,914,531
Prior service credit	<u>(7,360,595)</u>	<u>(12,279,845)</u>
	<u>\$ (5,805,768)</u>	<u>\$ (10,365,314)</u>

Other changes in benefit obligations recognized in change in net assets:

	<b>Pension Benefits</b>	
	<u>2018</u>	<u>2017</u>
Amounts arising during the period		
Net (gain) loss	\$ (59,816)	\$ 37,430
New prior service cost	-	12,266
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	(299,888)	(530,912)
Net prior service credit	4,919,250	4,981,956

A reconciliation of the projected postretirement medical benefit obligation follows:

	<b>Pension Benefits</b>	
	<u>2018</u>	<u>2017</u>
Change in benefit obligation		
Obligation at June 1	\$ 13,147,549	\$ 13,461,881
Service cost	91,549	92,142
Interest cost	424,761	436,466
Participant contributions	-	47,230
Actuarial (gain) loss	(59,816)	37,430
Benefit payments	(859,964)	(939,866)
Plan amendments	<u>-</u>	<u>12,266</u>
Obligation at May 31	<u>\$ 12,744,079</u>	<u>\$ 13,147,549</u>

Other significant balances and costs as of May 31 are:

	<u>2018</u>	<u>2017</u>
Net periodic benefit costs	\$ (4,103,052)	\$ (3,922,436)
Employer contributions	859,964	892,636
Participant contributions	-	47,230
Benefits paid	(859,964)	(939,866)



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Components of net periodic postretirement benefit cost:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 91,549	\$ 92,142
Interest cost	424,761	436,466
Amortization of prior service credit	(4,919,250)	(4,981,956)
Amortization of net loss	<u>299,888</u>	<u>530,912</u>
Net periodic postretirement benefit cost	<u>\$ (4,103,052)</u>	<u>\$ (3,922,436)</u>

The estimated net loss and prior service credit for the defined benefit postretirement plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$140,210 and \$299,888, respectively.

The University expects to contribute \$886,350 to the Plan in fiscal year 2019. Shown below are the expected benefit payments for 2019 through 2023 and the five years thereafter:

2019	\$ 886,350
2020	863,867
2021	865,606
2022	861,950
2023	853,240
2024 – 2028	4,185,317

The weighted-average discount rate and the assumed health care cost trend rate used in determining the postretirement benefit obligation and benefit costs were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.30%	3.99%
Health care cost trend rate	Not applicable	5.90%

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage Point Increase</u>	<u>1-Percentage Point Decrease</u>
Effect on total of service and interest cost	\$ -	\$ 186
Effect on accumulated postretirement benefit obligation	-	-

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**Note 11: Net Assets**

***Net Assets with Donor Restrictions***

Restricted net assets are available for the following purposes or periods:

	<b>2018</b>	<b>2017 (Restated)</b>
Subject to expenditure for specified purpose		
Unexpended property and equipment funds	\$ 7,584,079	\$ 5,171,852
Scholarships	88,092	109,116
Instruction, academic support and research	4,960,534	5,001,920
Loan program funds	4,027,733	4,101,437
	16,660,438	14,384,325
Subject to the passage of time		
Charitable trust agreements	3,029,505	2,955,264
Promises to give that are restricted by donors	3,467,593	5,008,156
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	41,396	36,583
	6,538,494	8,000,003
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Scholarships	35,379,329	36,122,256
Instruction and academic support	30,093,298	29,360,421
Term endowments	151,705	167,000
Underwater endowments	(1,513,824)	(2,526,465)
	64,110,508	63,123,212
Subject to endowment spending policy and appropriation		
Scholarships	62,877,332	60,426,680
Instruction and academic support	34,903,293	34,456,831
	97,780,625	94,883,511
Total endowments	161,891,133	158,006,723
Trusts, charitable gift annuities, and other activities to support		
Promises to give that are restricted by donors	647,898	897,932
Any activity of the University	820,773	807,837
Scholarships	11,357,714	3,897,755
Instruction and academic support	3,371,609	3,226,951
Trusts and charitable gift annuities, net of obligations	3,976,281	4,071,982
	20,174,275	12,902,457
Total net assets with donor restrictions	\$ 205,264,340	\$ 193,293,508

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***Net Assets Released From Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished		
Instruction, academic support and research	\$ 2,650,090	\$ 2,834,137
Other	89,677	299,846
	<u>2,739,767</u>	<u>3,133,983</u>
Total net assets released from restrictions for operations	<u>\$ 2,739,767</u>	<u>\$ 3,133,983</u>
Property and equipment acquired and placed in service	<u>\$ 1,426,003</u>	<u>\$ 1,451,453</u>
Total satisfaction of capital acquisition restrictions	<u>\$ 1,426,003</u>	<u>\$ 1,451,453</u>

**Note 12: Endowment**

The University's endowment consists of approximately 600 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body has interpreted the State of Ohio Uniform Prudent Management of Institutional Funds Act (Ohio UPMIFA) as requiring preservation of historic dollar 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 net assets without restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) any applicable other accumulations to the permanent endowment per the direction of the applicable donor gift instrument. The portion of donor-restricted endowment funds subject to appropriation and expenditure when a specified event occurs is classified as net assets with donor restrictions until those amounts appropriated for expenditure by the University in a manner consistent with the standards prescribed by Ohio UPMIFA. In accordance with Ohio UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

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The composition of net assets by type of endowment fund at May 31, 2018 and 2017, was:

	<b>2018</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 4,385,316	\$ -	\$ 4,385,316
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	97,780,625	97,780,625
Term endowments	-	151,705	151,705
Accumulated investment gains	-	63,958,803	63,958,803
<b>Total endowment funds</b>	<b>\$ 4,385,316</b>	<b>\$ 161,891,133</b>	<b>\$ 166,276,449</b>

	<b>2017 (Restated)</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 4,018,520	\$ -	\$ 4,018,520
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	94,883,511	94,883,511
Term endowments	-	167,000	167,000
Accumulated investment gains	-	62,956,212	62,956,212
<b>Total endowment funds</b>	<b>\$ 4,018,520</b>	<b>\$ 158,006,723</b>	<b>\$ 162,025,243</b>

Changes in endowment net assets for the years ended May 31, 2018 and 2017, were:

	<b>2018</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 4,018,520	\$ 158,006,723	\$ 162,025,243
Investment return			
Investment income	3,366,934	-	3,366,934
Net appreciation	7,901,057	3,663,083	11,564,140
<b>Total investment return</b>	<b>11,267,991</b>	<b>3,663,083</b>	<b>14,931,074</b>
Contributions	7,113	2,899,509	2,906,622
Appropriation of endowment assets for expenditure	(10,908,308)	(2,678,182)	(13,586,490)
<b>Endowment net assets, end of year</b>	<b>\$ 4,385,316</b>	<b>\$ 161,891,133</b>	<b>\$ 166,276,449</b>

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	<b>2017 (Restated)</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,025,029	\$ 151,828,652	\$ 152,853,681
Investment return			
Investment income	2,998,441	-	2,998,441
Net appreciation	8,081,422	6,193,844	14,275,266
Total investment return	11,079,863	6,193,844	17,273,707
Contributions	2,726,784	2,517,616	5,244,400
Appropriation of endowment assets for expenditure	(10,813,156)	(2,533,389)	(13,346,545)
Endowment net assets, end of year	<u>\$ 4,018,520</u>	<u>\$ 158,006,723</u>	<u>\$ 162,025,243</u>

Amounts of donor-restricted endowment funds classified as net assets with donor restrictions at May 31 consisted of:

	<b>2018</b>	<b>2017 (Restated)</b>
Net assets subject to endowment spending policy and appropriation, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	<u>\$ 97,780,625</u>	<u>\$ 94,883,511</u>
Subject to appropriation and expenditure when a specified event occurs		
Portion of perpetual endowment funds subject to appropriation and expenditure when a specified event occurs under Ohio UPMIFA	\$ 63,958,803	\$ 62,956,212
Term endowments	151,705	167,000
	<u>\$ 64,110,508</u>	<u>\$ 63,123,212</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Ohio UPMIFA. Such endowments are often referred to as “underwater” endowments. The University is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value.

In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. At May 31, 2018, funds with original gift values of \$17,245,101, fair values of \$15,731,277 and deficiencies of \$1,513,824 were reported in net assets with donor restrictions. At May 31, 2017, funds with original gift values of \$23,827,160, fair values of \$21,300,695 and deficiencies of \$2,526,465 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of contributions with donor restrictions and continued appropriation for certain purposes that was deemed prudent by the governing body at the time of such appropriation. Any future gains that restore the fair value of the assets of the endowment fund to the required level shall be classified as increases in net assets with donor restrictions.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

The University has adopted investment and spending policies for endowment assets whose objective is to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods, as well as those of Board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to a) earn a reasonable rate of return so as to maintain intergenerational equity, b) maintain an appropriately diversified portfolio, across asset classes and investment managers and c) maintain adequate liquidity to support expected distributions, portfolio balancing, funding of illiquid mandates, as well as reasonable expected needs. Return performance will be measured as compared to various and monitored benchmarks established by the investment committee measured over a full business cycle, typically three to five years. Actual returns in any given year may vary from this amount.

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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University adopted a policy (the spending policy) of appropriating for expenditure each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which expenditure is planned. This distribution is intended to support operations as well as cover investment-related fees and expenses. The Board authorized an additional expenditure to support scholarships and operations of \$6,000,000 and \$5,910,000 for the years ended May 31, 2018 and 2017, respectively. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 7.5 percent annually, before appropriation. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

During 2018, borrowings within the University were made from the endowment fund for capital projects. The borrowings from the endowment fund are not to exceed \$1,372,000, and totaled \$1,300,000 at May 31, 2018. This loan bears interest annually at 5.75 percent and will be repaid through the capital expenditure budgeting process of the University. The term of the loan is such that the balance be repaid no later than May 31, 2028.

#### **Note 13: Employee Retirement Benefits**

The University has a defined contribution plan. Retirement benefits are provided for employees through TIAA, a national, multi-employer organization used to fund retirement benefits for educational institutions. Employees are able to contribute to the plan from earnings up to the maximum allowed by the Internal Revenue Service code. The University plan is a matching plan and with a contribution rate of 4 percent. The University matches a maximum additional contribution of up to 3 percent if the employee contributed to the plan. Employees are no longer required to contribute to the plan. The University's contributions to the plan were \$2,320,675 and \$2,302,264 for the years ended May 31, 2018 and 2017, respectively. The employees are 100 percent vested when funds are deposited to the plan.

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**Note 14: Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, defines fair value 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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**Recurring Measurements**

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2018 and 2017:

	<b>2018</b>			
	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets</b>				
<b>Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases</b>				
Money market funds	\$ 266,141	\$ 266,141	\$ -	\$ -
<b>Investments</b>				
Money market funds	9,838,957	9,838,957	-	-
Common stocks	7,407,993	5,488,558	-	1,919,435
U.S. Government and agency obligations	592,548	-	592,548	-
Corporate debt securities	615,096	-	615,096	-
Equity mutual funds				
International markets	35,925,435	35,925,435	-	-
Large cap blend and growth	37,143,365	37,143,365	-	-
Small and mid-cap	5,402,191	5,402,191	-	-
Fixed income mutual funds	29,581,111	29,581,111	-	-
Land held for sale	61,245	-	-	61,245
Alternative investments				
Common trust funds measured at net asset value (A)	4,088,063	-	-	-
Multi-strategy hedge funds measured at net asset value (A)	4,217,865	-	-	-
Private equity funds measured at net asset value (A)	33,206,580	-	-	-
Real estate investment funds measured at net asset value (A)	899,722	-	-	-
<b>Assets Held in Charitable Remainder Trusts</b>	1,268,663	1,226,786	14,692	27,185
<b>Beneficial Interest in Remainder Trusts</b>	3,446,391	-	-	3,446,391
<b>Beneficial Interest in Perpetual Trusts</b>	15,327,868	-	-	15,327,868



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	2017			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
<b>Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases</b>				
Money market funds	\$ 266,624	\$ 266,624	\$ -	\$ -
<b>Investments</b>				
Money market funds	1,966,808	1,966,808	-	-
Common stocks	6,283,142	4,524,721	-	1,758,421
U.S. Government and agency obligations	406,381	-	406,381	-
Corporate debt securities	666,368	-	666,368	-
Equity mutual funds				
International markets	40,897,550	40,897,550	-	-
Large cap blend and growth	41,327,738	41,327,738	-	-
Small and mid-cap	5,472,906	5,472,906	-	-
Fixed income mutual funds	32,555,731	32,555,731	-	-
Land held for sale	61,245	-	-	61,245
Alternative investments				
Common trust funds measured at net asset value (A)	3,920,235	-	-	-
Multi-strategy hedge funds measured at net asset value (A)	3,915,073	-	-	-
Private equity funds measured at net asset value (A)	25,466,564	-	-	-
Real estate investment funds measured at net asset value (A)	2,188,206	-	-	-
<b>Assets Held in Charitable Remainder Trusts</b>	1,501,413	1,391,231	78,445	31,737
<b>Beneficial Interest in Remainder Trusts</b>	3,377,544	-	-	3,377,544
<b>Beneficial Interest in Perpetual Trusts</b>	7,736,977	-	-	7,736,977

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The University has no assets or liabilities measured at fair value on a nonrecurring basis. There were no significant changes in valuation techniques for the year-ended May 31, 2018.

#### ***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

#### ***Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases, Investments and Assets Held in Charitable Remainder Trusts***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Controller's Office. The Controller's Office obtains valuation from third parties as needed to generate fair value estimates. The Controller's Office reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

#### ***Beneficial Interest in Remainder Trusts***

Fair value is estimated at the present value of the future assets expected to be received from the trust upon dissolution. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

#### ***Beneficial Interest in Perpetual Trusts***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of beneficial interests in trusts is the responsibility of the Controller's Office. The Controller's Office obtains valuation from third parties as needed to generate fair value estimates. The Controller's Office reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	<b>Common Stocks</b>	<b>Land Held for Sale</b>	<b>Beneficial Interest in Remainder Trusts</b>	<b>Beneficial Interest in Perpetual Trusts</b>
Balance, June 1, 2016	\$ 1,738,421	\$ 153,415	\$ 3,331,926	\$ 7,390,479
Total realized and unrealized gains included in change in net assets	-	-	45,618	346,498
Sales	(2,150)	(92,170)	-	-
Balance, May 31, 2017	1,736,271	61,245	3,377,544	7,736,977
Total realized and unrealized gains included in change in net assets	-	-	68,847	7,590,891
Purchases	183,164	-	-	-
Balance, May 31, 2018	<u>\$ 1,919,435</u>	<u>\$ 61,245</u>	<u>\$ 3,446,391</u>	<u>\$ 15,327,868</u>
Total gains for the period included in change in net assets attributable to the change in unrealized gains (losses) related to assets and liabilities still held at the reporting date				
May 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,847</u>	<u>\$ 7,590,891</u>
May 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,618</u>	<u>\$ 346,498</u>

The realized and unrealized gains and losses for items reflected in the table above are included in other revenue (expenses) in the consolidated statements of activities.

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***Unobservable (Level 3) Inputs***

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

	<b>Fair Value at May 31, 2018</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Common stocks	\$ 1,919,435	Market comparables	Liquidity and marketability discounts	0% - 30%
Land held for sale	61,245	Market comparables	Marketability discounts and adjustments	0% - 20%
Beneficial interest in remainder trusts	3,446,391	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial interest in perpetual trusts	15,327,868	Discounted cash flows	Discount rates Market return rates	2% - 8%

	<b>Fair Value at May 31, 2017</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Common stocks	\$ 1,736,271	Market comparables	Liquidity and marketability discounts	0% - 30%
Land held for sale	61,245	Market comparables	Marketability discounts and adjustments	0% - 20%
Beneficial interest in remainder trusts	3,377,544	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial interest in perpetual trusts	7,736,977	Discounted cash flows	Discount rates Market return rates	2% - 8%

***Sensitivity of Significant Unobservable Inputs***

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

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***Land Held for Sale and Common Stocks***

The significant unobservable inputs used in the fair value measurement of the University's common stocks and land held for sale would be comparable pricing inputs when prices for the identical security or instrument are not available. Valuation using comparable inputs is subjective and involves using a price of a comparable instrument and adjusting to account for a variety of relevant differences in the assets. Therefore, significant differences in the comparable inputs would result in higher or lower fair value measurement.

***Beneficial Interest in Remainder Trusts and Perpetual Trusts***

The significant unobservable inputs used in the fair value measurement of the University's beneficial interest in remainder trusts and perpetual trusts are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

**Note 15: Liquidity**

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise the following:

	<b>2018</b>	<b>2017</b>
Financial assets, at year-end	\$ 180,493,800	\$ 183,771,566
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(12,632,705)	(10,282,888)
Subject to appropriation and satisfaction of donor restrictions	(150,033,833)	(144,465,413)
Investments related to split-interest agreements	(4,399,223)	(4,321,647)
Contributions receivable	(4,124,387)	(5,874,121)
Board designations		
Quasi-endowment fund, primarily for long-term investing	(4,328,696)	(3,978,340)
Designated for capital acquisition	(3,000,000)	(3,000,000)
	<b>\$ 1,974,956</b>	<b>\$ 11,849,157</b>

The University's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The Board of Trustees has authorized a distribution from the endowment to support operations for fiscal year 2019 of approximately \$11,900,000. This amount is netted against restrictions subject to appropriation and satisfaction of donor restrictions in the table above.

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## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

The board-designated endowments of \$4,385,316 and \$4,018,520 as of May 31, 2018 and 2017, respectively, are subject to an annual spending rate of 5.0 percent as described in Note 11. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditures as part of the University's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in money market funds. As of May 31, 2018 and 2017, the Board of Trustees designated \$3,000,000 from unrestricted bequests to be set aside to support the construction of the new Engineering education building. Those funds were not placed in a board-designated endowment and remain as part of net assets without donor restrictions.

#### **Note 16: Significant Estimates, Concentrations, Commitments and Contingencies**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

##### ***Contributions***

Approximately 11 percent and 41 percent of all contributions were received from one donor and three donors in 2018 and 2017, respectively.

##### ***Postretirement Medical Benefit Obligations***

The University has a postretirement medical benefit plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

##### ***Accrued Asset Retirement Obligation***

Determination of the recorded liability is based on a number of estimates and assumptions including discount rates, abatement cost estimates and estimates of dates of abatement. The University estimated its liability to be \$553,929 and \$611,914 at May 31, 2018 and 2017, respectively, and is included in the consolidated statements of financial position.

##### ***Litigation and Remediation***

The University is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

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**Note 17: Risks and Uncertainties**

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the consolidated statements of financial position.

**Note 18: One-time Restructuring Expenses**

In 2017, the University implemented some early retirement options to certain eligible employees. These actions resulted in payments for severance and fringe benefits of \$372,652. The University did not offer any early retirement options in 2018. The University has recorded these expenses as non-operating due to its non-recurring nature.

**Note 19: Subsequent Events**

Subsequent events have been evaluated through October 17, 2018, which is the date the consolidated financial statements were issued.