

# OHIO NORTHERN UNIVERSITY

**Independent Auditor's Report and Consolidated Financial Statements**  
May 31, 2019 and 2018

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# Ohio Northern University

May 31, 2019 and 2018

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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, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ohio Northern University and its subsidiaries as of May 31, 2019 and 2018, 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.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated October 3, 2019, 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, 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 3, 2019

**Ohio Northern University**  
**Consolidated Statements of Financial Position**  
**May 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,026,023	\$ 3,531,901
Student accounts receivable, net of allowance of \$1,254,596 in 2019 and \$1,465,013 in 2018	1,233,683	1,585,242
Contributions receivable, net of allowance of \$100,000 in 2019 and 2018	2,721,102	4,156,887
Other receivables	1,953,035	1,973,460
Cash equivalents and investments restricted for loans and long-lived asset purchases	5,292,008	4,668,213
Inventories	301,510	342,415
Prepaid expenses	1,370,238	1,243,899
Investments	163,631,311	169,246,310
Notes receivable, net of allowance of \$69,344 in 2019 and \$58,072 in 2018	11,416,268	11,496,602
Assets held in charitable remainder trusts	1,197,139	1,268,663
Property and equipment	148,577,976	130,304,324
Cash value of life insurance	868,642	845,833
Beneficial interest in remainder trusts	3,156,008	3,446,391
Beneficial interest in perpetual trusts	15,294,521	15,327,868
	<b>\$ 359,039,464</b>	<b>\$ 349,438,008</b>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 6,048,055	\$ 5,114,058
Accrued expenses	7,806,879	7,336,339
Deferred revenue and deposits	6,683,444	5,831,912
Bonds payable	74,496,361	56,187,845
Annuities and trusts payable	2,486,421	2,108,485
Postretirement medical benefits	8,620,062	12,744,079
Other	569,452	587,578
U.S. Government refundable advances	9,254,880	9,207,780
Total liabilities	115,965,554	99,118,076
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	34,396,242	37,670,276
Designated by the Board for endowment	4,406,309	4,385,316
Designated by the Board for capital acquisition	3,000,000	3,000,000
	41,802,551	45,055,592
With donor restrictions		
Perpetual in nature	101,564,566	97,780,625
Purpose restriction	77,117,720	82,284,770
Time-restricted for future periods	4,789,727	6,538,494
Trusts, charitable gift annuities, and other activities	19,683,426	20,174,275
Underwater endowments	(1,884,080)	(1,513,824)
	201,271,359	205,264,340
Total net assets	243,073,910	250,319,932
Total liabilities and net assets	<b>\$ 359,039,464</b>	<b>\$ 349,438,008</b>

**Ohio Northern University**  
**Consolidated Statement of Activities**  
**Year Ended May 31, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, Income and Other Support</b>			
Tuition and fees	\$ 99,639,437	\$ -	\$ 99,639,437
Less scholarships and aid	(50,065,596)	-	(50,065,596)
Net tuition and fees	49,573,841	-	49,573,841
Gifts and bequests	865,561	1,107,391	1,972,952
Grants and contracts	2,117,157	1,275	2,118,432
Investment return designated for operations	2,902,814	9,013,226	11,916,040
Investment income from trusts held by others	483,170	25,405	508,575
Other investment income	93,457	-	93,457
Other	1,504,098	-	1,504,098
Auxiliary enterprises	21,051,818	-	21,051,818
Net assets released from restrictions for operating items	7,949,377	(7,949,377)	-
Total revenue, income and other support	<u>86,541,293</u>	<u>2,197,920</u>	<u>88,739,213</u>
<b>Expenses</b>			
Instruction	38,285,539	-	38,285,539
Sponsored programs	1,483,253	-	1,483,253
Academic support	3,750,376	-	3,750,376
Libraries	2,981,105	-	2,981,105
Student services	12,276,461	-	12,276,461
Auxiliary	21,518,412	-	21,518,412
Total educational activities	<u>80,295,146</u>	<u>-</u>	<u>80,295,146</u>
Institutional support	7,405,060	-	7,405,060
Fundraising	1,789,092	-	1,789,092
Total expenses	<u>89,489,298</u>	<u>-</u>	<u>89,489,298</u>
<b>Change in Net Assets Before Other Revenue (Expenses)</b>	<u>(2,948,005)</u>	<u>2,197,920</u>	<u>(750,085)</u>
<b>Other Revenue (Expenses)</b>			
The Inn remediation	(61,721)	-	(61,721)
Gifts restricted for endowment	-	3,632,932	3,632,932
Gifts restricted for acquisition of long-lived assets	-	930,576	930,576
Investment return less amounts designated for operations	45,370	(9,433,167)	(9,387,797)
Change in value of split-interest agreements	-	(1,107,035)	(1,107,035)
Actuarial adjustment to postretirement medical benefit liability	(668,666)	-	(668,666)
Change in asset retirement obligation	17,786	-	17,786
Change in beneficial interest in perpetual trusts	-	377,239	377,239
One-time restructuring expenses	(229,251)	-	(229,251)
Satisfaction of capital acquisition restrictions	591,446	(591,446)	-
Total other revenue (expenses)	<u>(305,036)</u>	<u>(6,190,901)</u>	<u>(6,495,937)</u>
<b>Change in Net Assets</b>	<u>(3,253,041)</u>	<u>(3,992,981)</u>	<u>(7,246,022)</u>
<b>Net Assets, Beginning of Year</b>	<u>45,055,592</u>	<u>205,264,340</u>	<u>250,319,932</u>
<b>Net Assets, End of Year</b>	<u>\$ 41,802,551</u>	<u>\$ 201,271,359</u>	<u>\$ 243,073,910</u>

**Ohio Northern University**  
**Consolidated Statements 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, gains (losses) and other support	88,227,774	1,248,090	89,475,864
<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	91,695,237	-	91,695,237
<b>Change in Net Assets Before Other Revenue (Expenses)</b>	(3,467,463)	1,248,090	(2,219,373)
<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)	(3,402,956)	10,722,742	7,319,786
<b>Change in Net Assets</b>	(6,870,419)	11,970,832	5,100,413
<b>Net Assets, Beginning of Year</b>	51,926,011	193,293,508	245,219,519
<b>Net Assets, End of Year</b>	\$ 45,055,592	\$ 205,264,340	\$ 250,319,932



**Ohio Northern University**  
**Consolidated Statements of Cash Flows**  
**Years Ended May 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Change in net assets	\$ (7,246,022)	\$ 5,100,413
Items not requiring (providing) operating activities cash flows		
Depreciation	7,835,122	7,607,544
Amortization of bond origination costs	32,403	51,579
Expense of bond origination costs due to refinance	-	560,972
Change in allowance for doubtful accounts	(199,145)	72,863
Net realized and unrealized (gains) losses on investments	439,553	(11,575,544)
(Gain) loss on sale of property and equipment	(15,450)	5,117
(Gain) loss on beneficial interest in perpetual trust	33,347	(7,590,891)
Contributions received and payments received on contributions receivable restricted for long-term investment	(3,645,705)	(2,502,137)
Contributions received and payments received on contributions receivable restricted for acquisition of long-lived assets	(2,338,985)	(2,490,350)
Changes in		
Student accounts receivable	561,976	(379,270)
Contributions receivable	1,435,785	1,814,478
Other receivables	20,425	1,435,535
Inventories	40,905	(21,044)
Prepaid expenses and other assets	(126,339)	(67,640)
Beneficial interest in remainder trusts	361,907	163,903
Accounts payable	933,997	1,292,748
Accrued expenses	470,540	(1,333,460)
Deferred revenue and deposits	851,532	1,969,318
Annuities and trusts payable	377,936	(101,288)
Postretirement medical benefits	(4,124,017)	(403,470)
Other liabilities	(18,126)	(54,936)
Net cash used in operating activities	<u>(4,318,361)</u>	<u>(6,445,560)</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(26,119,581)	(8,203,235)
(Increase) decrease in notes receivable	69,062	(510,952)
Purchases of investments	(104,622,328)	(99,904,925)
Proceeds from sales and maturities of investments	109,797,774	107,608,730
Proceeds from sale of fixed assets	26,257	24,708
Increase in cash equivalents and investments restricted for loans and long-lived asset purchases	(623,795)	(747,329)
Increase in cash value of life insurance	(22,809)	(43,518)
Net cash provided by (used in) investing activities	<u>(21,495,420)</u>	<u>(1,776,521)</u>
<b>Financing Activities</b>		
Principal payments on bonds	(1,333,379)	(34,436,621)
Issuance of new debt	19,609,492	34,511,534
Bond origination costs on new debt	-	(573,424)
Proceeds from contributions received and payments received on contributions receivable restricted for long-term investment	3,645,705	2,502,137
Proceeds from contributions received and payments received on contributions receivable restricted for acquisition of long-lived assets	2,338,985	2,490,350
Increase (decrease) in U.S. Government refundable advances	47,100	(63,994)
Net cash provided by financing activities	<u>24,307,903</u>	<u>4,429,982</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,505,878)	(3,792,099)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,531,901</u>	<u>7,324,000</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,026,023</u>	<u>\$ 3,531,901</u>

# **Ohio Northern University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2019 and 2018**

#### **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, 2019 and 2018, cash equivalents consisted primarily of money market funds.

At May 31, 2019, the University's cash accounts, which are held at multiple financial institutions, exceeded federally insured limits by approximately \$4,900,000. 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, 2019 and 2018

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

Investments in equity securities having a readily determinable fair value and in 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 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 with or without 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 \$1,067,600 and \$1,120,000 at May 31, 2019 and 2018, 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, 2019 and 2018

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

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred each year was:

	<b>2019</b>	<b>2018</b>
Total interest expense incurred on borrowings for project	\$ 348,450	\$ -
Interest costs capitalized	348,450	-
	<b>2019</b>	<b>2018</b>
Interest costs capitalized	\$ 348,450	\$ -
Interest costs charged to expense	2,120,563	1,903,886
Total interest incurred	\$ 2,469,013	\$ 1,903,886

#### ***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 2019 or 2018.

#### ***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 and physical plant investments.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2019 and 2018

#### **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.
- *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.

# **Ohio Northern University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2019 and 2018**

#### ***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.

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 2015. 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, 2019 and 2018. 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 30 days, in accordance with the leave policy. Employees may be paid for unused vacation leave, up to a maximum of 20 days, 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, 2019 and 2018, the University had an accrual of \$811,173 and \$1,155,338, 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.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2019 and 2018**

**Note 2: Contributions Receivable**

Contributions receivable at May 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 1,874,952	\$ 1,936,626
Due one to five years	976,943	2,227,495
Due after five years	<u>16,500</u>	<u>151,956</u>
	2,868,395	4,316,077
Less allowance for uncollectible contributions	(100,000)	(100,000)
Less present value discount	<u>(47,293)</u>	<u>(59,190)</u>
	<u>\$ 2,721,102</u>	<u>\$ 4,156,887</u>

Discount rates ranged from 1.82 percent to 2.69 percent for 2019 and 2018.

The University has received notification from a contributor that it is named as the beneficiary of a significant irrevocable gift. The University is in the process of obtaining the necessary information to document and record its interest in the gift. The University expects to record a contribution and interest in the gift in the next fiscal year when the necessary information becomes available and has been analyzed.

**Note 3: Investments and Investment Return**

Investments at May 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash and money market funds	\$ 1,722,208	\$ 10,105,098
Common stocks	6,003,852	7,407,993
U.S. Government and agency obligations	571,749	592,548
Corporate debt securities	646,582	615,096
Equity mutual funds		
International markets	33,114,119	35,925,434
Large cap blend and growth	30,494,684	37,143,364
Small and mid-cap	3,669,774	5,402,191
Fixed income mutual funds	25,650,253	29,581,111
Alternative investments		
Common trust funds	9,853,386	4,088,063
Multi-strategy hedge funds	3,883,652	4,217,865
Private equity funds	45,091,858	33,206,580
Real estate investment funds	2,867,949	899,722
Land held for sale	<u>61,245</u>	<u>61,245</u>
	<u>\$ 163,631,311</u>	<u>\$ 169,246,310</u>

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2019 and 2018

The University's net assets with donor restrictions include various endowment funds established by donors. At May 31, 2019, the fair value of the assets of some of these funds was \$1,884,080 less than the level required by donor stipulation or law.

Total investment return is comprised of the following:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating</b>			
Endowment income and gains distributed	\$ 2,902,814	\$ 9,013,226	\$ 11,916,040
Total operating	<u>2,902,814</u>	<u>9,013,226</u>	<u>11,916,040</u>
<b>Non-operating</b>			
Interest and dividend income (net of expenses)	2,967,796	-	2,967,796
Net realized and unrealized losses	(19,612)	(419,941)	(439,553)
Investment return designated for current operations	<u>(2,902,814)</u>	<u>(9,013,226)</u>	<u>(11,916,040)</u>
Total non-operating	<u>45,370</u>	<u>(9,433,167)</u>	<u>(9,387,797)</u>
Total return (loss) on investments	<u>\$ 2,948,184</u>	<u>\$ (419,941)</u>	<u>\$ 2,528,243</u>

	<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>Non-operating</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 non-operating	<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>

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

	<b>2019</b>	<b>2018</b>
Capital projects and debt service	\$ 2,655,746	\$ 2,640,923
Loan funds	<u>2,636,262</u>	<u>2,027,290</u>
Total	<u>\$ 5,292,008</u>	<u>\$ 4,668,213</u>

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
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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, 2019</b>				
	\$	\$		
Private common trust funds (A)	9,853,386	-	Monthly- Quarterly	30-90 days
Multi-strategy hedge funds (B)	3,883,652	-	Monthly- Quarterly	30-90 days
Private equity funds (C)	45,091,858	32,029,500	Nonredeemable	N/A
Real estate investment funds (D)	2,867,949	8,000,000	Nonredeemable	N/A

  

<b>May 31, 2018</b>				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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

- (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, 2019.
- (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, 2019.
- (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 \$32,029,500 and \$26,523,900 at May 31, 2019 and 2018, respectively. Subsequent to May 31, 2019, the University paid \$1,422,353 to fund capital calls.
- (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'

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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, 2019 and 2018. Pursuant to fund agreements, the University has committed to fund future capital calls on the one fund totaling \$8,000,000 at May 31, 2019 and 2018. Subsequent to May 31, 2019, the University paid \$0 to fund capital calls.

**Note 4: 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 \$9,254,880 and \$9,207,780 as of May 31, 2019 and 2018, 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 2.6 percent of total assets as of May 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Student loans receivable		
Federal government programs	\$ 8,611,137	\$ 9,183,946
Institutional programs	<u>2,874,475</u>	<u>2,370,728</u>
Total student loans receivable	<u>11,485,612</u>	<u>11,554,674</u>
Less allowance for doubtful accounts		
Balance, beginning of year	(58,072)	(51,000)
Provision charged to income (expense)	<u>(11,272)</u>	<u>(7,072)</u>
Balance, end of year	<u>(69,344)</u>	<u>(58,072)</u>
Net loans receivable	<u>\$ 11,416,268</u>	<u>\$ 11,496,602</u>

**Ohio Northern University**  
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**Note 5: Property and Equipment**

Property and equipment are summarized as follows at May 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 8,159,275	\$ 8,159,275
Land improvements	9,591,421	9,215,164
Buildings	203,314,381	202,578,374
Equipment, furniture, fixtures and vehicles	21,321,446	20,695,536
Collections	1,864,029	1,864,029
Construction in progress	26,639,299	2,356,064
	<u>270,889,851</u>	<u>244,868,442</u>
Less accumulated depreciation	<u>(122,311,875)</u>	<u>(114,564,118)</u>
	<u>\$ 148,577,976</u>	<u>\$ 130,304,324</u>

The following construction commitments exist as of May 31:

	<u>2019</u>	<u>2018</u>
New Engineering Education Building	\$ 5,644,323	\$ 25,102,032
New Information Technology Building	55,865	1,538,885
Demolition of Clark Hall	9,772	205,500
Repurposing of Biggs Building	553,851	549,949
	<u>\$ 6,263,811</u>	<u>\$ 27,396,366</u>

**Note 6: 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 2.8 percent and 3.2 percent for May 31, 2019 and 2018, respectively, and applicable mortality tables. The estimated value of the expected future cash flows is \$3,156,008 and \$3,446,391 at May 31, 2019 and 2018, 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 \$15,294,521 and \$15,327,868, which represents the fair value of the trust assets at May 31, 2019 and 2018, respectively.

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**Note 7: Bonds Payable**

Bonds payable consist of the following:

	<b>2019</b>	<b>2018</b>
2013 Economic Development Facilities Revenue Refunding Bonds Series A1, interest at fixed rate of 4.557%, maturing through May 2038, payable in annual installments ranging from \$160,000 to \$280,000	\$ 3,865,000	\$ 4,145,000
2013 Economic Development Facilities Revenue Refunding Bonds, Series A2, interest at fixed rate of 4.254% maturing through May 2038, payable in annual installments ranging from \$535,000 to \$925,000	12,755,000	13,680,000
2014 Economic Development Facilities Revenue Refunding Bonds, interest rate at fixed rate of 4.0108%, maturing through May 2031, payable in annual installments ranging from \$675,000 to \$2,995,000	4,700,000	4,828,379
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	34,511,534	34,511,534
2018 Construction loan at an interest rate equal to the 30-day LIBOR rate plus two percent (4.48% at May 31, 2019), adjusted monthly, maturing in April 2020 (refinanced in August 2019)	19,609,492	-
Total bonds payable	75,441,026	57,164,913
Less: Bond origination costs	(944,665)	(977,068)
Total bonds payable	\$ 74,496,361	\$ 56,187,845

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 was reflected as a non-operating loss on extinguishment of debt on the consolidated statement of activities in 2018. The amount of bond origination costs associated with the Series 2013 bonds is \$327,010 and \$341,100 at May 31, 2019 and 2018, respectively.

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 was reflected as a non-operating loss on extinguishment of debt on the consolidated statement of activities in 2018. The amount of bond origination costs associated with the Series 2014 bonds is \$59,827 and \$63,740 at May 31, 2019 and 2018, respectively.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2019 and 2018

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 bonds 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 \$557,828 and \$572,328 at May 31, 2019 and 2018, respectively.

Aggregate annual principal payments required on bonds payable at May 31, 2019, are:

2020		\$	1,160,376
2021			2,045,594
2022			2,110,963
2023			2,187,334
2024			1,979,740
Thereafter			65,957,019
		\$	75,441,026

The 2018 construction loan was refinanced in August 2019. The payment schedule above reflects this refinancing.

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, 2019 and 2018, the University is in compliance with these covenants.

Interest expense was \$2,120,563 and \$1,903,886 for the years ended May 31, 2019 and 2018, respectively.

#### **Note 8: 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, 2019 and 2018, of \$1,903,954 and \$1,403,869, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 1 percent to 8 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, 2019 and 2018, of \$582,467 and \$704,616, respectively. The present value of

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the estimated future payments is calculated using discount rates ranging from 5 percent to 10 percent and applicable mortality tables.

**Note 9: 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>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation	\$ (8,620,062)	\$ (12,744,079)
Fair value of Plan assets	-	-
Funded status	<u>\$ (8,620,062)</u>	<u>\$ (12,744,079)</u>

Liabilities recognized in the consolidated statements of financial position:

	<u>2019</u>	<u>2018</u>
Accrued benefit liability	<u>\$ (8,620,062)</u>	<u>\$ (12,744,079)</u>

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

	<u>2019</u>	<u>2018</u>
Net loss	\$ 1,605,360	\$ 1,554,827
Prior service credit	<u>(6,742,462)</u>	<u>(7,360,595)</u>
	<u>\$ (5,137,102)</u>	<u>\$ (5,805,768)</u>

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

	<b>Pension Benefits</b>	
	<u>2019</u>	<u>2018</u>
Amounts arising during the period		
Net (gain) loss	\$ 190,743	\$ (59,816)
New prior service cost	(4,148,191)	-
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	(140,210)	(299,888)
Net prior service credit	4,766,324	4,919,250

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A reconciliation of the projected postretirement medical benefit obligation follows:

	<b>Pension Benefits</b>	
	<b>2019</b>	<b>2018</b>
Change in benefit obligation		
Obligation at June 1	\$ 12,744,079	\$ 13,147,549
Service cost	78,478	91,549
Interest cost	482,569	424,761
Actuarial (gain) loss	190,743	(59,816)
Benefit payments	(727,616)	(859,964)
Plan amendments	(4,148,191)	-
	<u>\$ 8,620,062</u>	<u>\$ 12,744,079</u>
Obligation at May 31	<u>\$ 8,620,062</u>	<u>\$ 12,744,079</u>

Other significant balances and costs as of May 31 are:

	<b>2019</b>	<b>2018</b>
Net periodic benefit costs	\$ (4,065,067)	\$ (4,103,052)
Employer contributions	727,616	859,964
Benefits paid	(727,616)	(859,964)

Components of net periodic postretirement benefit cost:

	<b>2019</b>	<b>2018</b>
Service cost	\$ 78,478	\$ 91,549
Interest cost	482,569	424,761
Amortization of prior service credit	(4,766,324)	(4,919,250)
Amortization of net loss	140,210	299,888
	<u>\$ (4,065,067)</u>	<u>\$ (4,103,052)</u>
Net periodic postretirement benefit cost	<u>\$ (4,065,067)</u>	<u>\$ (4,103,052)</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 \$371,677 and \$140,210, respectively.

The University expects to contribute \$776,911 to the Plan in fiscal year 2020. Shown below are the expected benefit payments for 2020 through 2024 and the five years thereafter:

2020	\$ 776,911
2021	749,298
2022	721,265
2023	695,248
2024	670,153
2025 – 2029	2,947,330

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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>2019</u>	<u>2018</u>
Discount rate	3.52%	4.30%
Health care cost trend rate	Not applicable	Not applicable

**Note 10: Net Assets**

***Net Assets with Donor Restrictions***

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

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Unexpended property and equipment funds	\$ 9,335,638	\$ 7,584,079
Scholarships	1,007,164	88,092
Instruction, academic support and research	6,206,291	4,960,534
Loan program funds	<u>4,012,521</u>	<u>4,027,733</u>
	20,561,614	16,660,438
Subject to the passage of time		
Charitable trust agreements	2,689,334	3,029,505
Promises to give that are restricted by donors	2,055,247	3,467,593
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>45,146</u>	<u>41,396</u>
	4,789,727	6,538,494
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Scholarships	29,314,864	35,379,329
Instruction and academic support	27,089,537	30,093,298
Term endowments	151,705	151,705
Underwater endowments	<u>(1,884,080)</u>	<u>(1,513,824)</u>
	54,672,026	64,110,508
Subject to endowment spending policy and appropriation		
Scholarships	66,179,353	62,877,332
Instruction and academic support	<u>35,385,213</u>	<u>34,903,293</u>
	101,564,566	97,780,625
Total endowments	156,236,592	161,891,133
Trusts, charitable gift annuities, and other activities to support:		
Promises to give that are restricted by donors	620,709	647,898
Any activity of the University	801,768	820,773
Scholarships	11,535,673	11,357,714
Instruction and academic support	3,179,309	3,371,609
Trusts and charitable gift annuities, net of obligations	<u>3,545,967</u>	<u>3,976,281</u>
	19,683,426	20,174,275
Total net assets with donor restrictions	<u>\$ 201,271,359</u>	<u>\$ 205,264,340</u>

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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>2019</u>	<u>2018</u>
Purpose restrictions accomplished		
Instruction, academic support and research	\$ 6,838,770	\$ 2,650,090
Trusts and charitable gift annuities	1,062,367	-
Other	<u>48,240</u>	<u>89,677</u>
Total net assets released from restrictions for operations	<u>\$ 7,949,377</u>	<u>\$ 2,739,767</u>
Property and equipment acquired and placed in service	<u>\$ 591,446</u>	<u>\$ 1,426,003</u>
Total satisfaction of capital acquisition restrictions	<u>\$ 591,446</u>	<u>\$ 1,426,003</u>

**Note 11: Endowment**

The University's endowment consists of approximately 650 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, 2019 and 2018, was:

	<b>2019</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 4,406,309	\$ -	\$ 4,406,309
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	101,564,566	101,564,566
Term endowments	-	151,705	151,705
Accumulated investment gains	-	54,520,321	54,520,321
	<u>\$ 4,406,309</u>	<u>\$ 156,236,592</u>	<u>\$ 160,642,901</u>

	<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
	<u>\$ 4,385,316</u>	<u>\$ 161,891,133</u>	<u>\$ 166,276,449</u>

Changes in endowment net assets for the years ended May 31, 2019 and 2018, were:

	<b>2019</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 4,385,316	\$ 161,891,133	\$ 166,276,449
Investment return (loss)			
Investment income	2,927,093	-	2,927,093
Net depreciation	(12,178)	(425,256)	(437,434)
Total investment return (loss)	2,914,915	(425,256)	2,489,659
Contributions	8,892	3,783,941	3,792,833
Appropriation of endowment assets for expenditure	(2,902,814)	(9,013,226)	(11,916,040)
	<u>\$ 4,406,309</u>	<u>\$ 156,236,592</u>	<u>\$ 160,642,901</u>

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	2018		
	Without Donor Restriction	With Donor Restriction	Total
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
Total investment return	11,267,991	3,663,083	14,931,074
Contributions	7,113	2,899,509	2,906,622
Appropriation of endowment assets for expenditure	(10,908,308)	(2,678,182)	(13,586,490)
Endowment net assets, end of year	<u>\$ 4,385,316</u>	<u>\$ 161,891,133</u>	<u>\$ 166,276,449</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 resources without donor restrictions 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, 2019, funds with original gift values of \$21,246,938, fair values of \$19,362,858 and deficiencies of \$1,884,080, were 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. 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.

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

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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 \$4,800,000 and \$6,000,000 for the years ended May 31, 2019 and 2018, respectively. In establishing this policy, the University considered the long-term expected return on its endowment. 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 \$1,200,208 and \$1,300,000 at May 31, 2019 and 2018, respectively. 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 12: 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 \$2,350,950 and \$2,320,675 for the years ended May 31, 2019 and 2018, respectively. The employees are 100 percent vested when funds are deposited to the Plan.

#### **Note 13: 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

#### **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

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level within the fair value hierarchy in which the fair value measurements fall at May 31, 2019 and 2018:

	2019			
	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)
<b>Assets</b>				
<b>Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases</b>				
Money market funds	\$ 265,794	\$ 265,794	\$ -	\$ -
<b>Investments</b>				
Money market funds	1,456,377	1,456,377	-	-
Common stocks	6,003,852	4,086,921	-	1,916,931
U.S. Government and agency obligations	571,749	-	571,749	-
Corporate debt securities	646,852	-	646,852	-
Equity mutual funds				
International markets	33,114,119	33,114,119	-	-
Large cap blend and growth	30,494,684	30,494,684	-	-
Small and mid-cap	3,669,774	3,669,774	-	-
Fixed income mutual funds	25,650,253	25,650,253	-	-
Land held for sale	61,245	-	-	61,245
Alternative investments				
Common trust funds measured at net asset value (A)	-	-	-	-
Multi-strategy hedge funds measured at net asset value (A)	-	-	-	-
Private equity funds measured at net asset value (A)	-	-	-	-
Real estate investment funds measured at net asset value (A)	-	-	-	-
<b>Assets Held in Charitable Remainder Trusts</b>	1,197,139	1,140,181	28,632	28,326
<b>Beneficial Interest in Remainder Trusts</b>	3,156,008	-	-	3,156,008
<b>Beneficial Interest in Perpetual Trusts</b>	15,294,521	-	-	15,294,521

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	2018			
	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	\$ 266,141	\$ 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	35,925,434	35,925,434	-	-
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)	-	-	-	-
Multi-strategy hedge funds measured at net asset value (A)	-	-	-	-
Private equity funds measured at net asset value (A)	-	-	-	-
Real estate investment funds measured at net asset value (A)	-	-	-	-
<b>Assets Held in Charitable Remainder Trusts</b>	1,268,664	1,226,787	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

(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.

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

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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, 2019.

#### ***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, 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	1,919,435	61,245	3,446,391	15,327,868
Total realized and unrealized losses included in change in net assets	-	-	(290,383)	(33,347)
Sales	(2,504)	-	-	-
Balance, May 31, 2019	<u>\$ 1,916,931</u>	<u>\$ 61,245</u>	<u>\$ 3,156,008</u>	<u>\$ 15,294,521</u>
Total gains (losses) 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, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (290,383)</u>	<u>\$ (33,347)</u>
May 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,847</u>	<u>\$ 7,590,891</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.

**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, 2019</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Common stocks	\$ 1,916,931	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	3,156,008	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial interest in perpetual trusts	15,294,521	Discounted cash flows	Discount rates Market return rates	2% - 8%

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	<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%

***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.

***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.

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**Note 15: Liquidity**

Financial assets available for the 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:

	<u>2019</u>	<u>2018</u>
Financial assets, at year-end	\$ 171,565,154	\$ 180,493,800
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(16,549,093)	(12,632,705)
Subject to appropriation and satisfaction of donor restrictions	(145,863,172)	(150,033,833)
Investments related to split-interest agreements	(4,368,814)	(4,399,223)
Contributions receivable	(2,672,488)	(4,124,387)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(4,028,859)	(4,328,696)
Designated for capital acquisition	<u>(3,000,000)</u>	<u>(3,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ (4,917,272)</u>	<u>\$ 1,974,956</u>

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 2020 of approximately \$10,800,000. This amount is netted against restrictions subject to appropriation and satisfaction of donor restrictions in the table above.

The board-designated endowments of \$4,406,309 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, the University invests cash in excess of daily requirements in money market funds. As of May 31, 2019 and 2018, the Board of Trustees designated \$3,000,000 from bequests without donor restrictions 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:

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***Contributions***

Approximately 11 percent of all contributions were received from one donor in 2019 and 2018.

***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 \$532,394 and \$553,929 at May 31, 2019 and 2018, 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.

**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: Restructuring Expenses**

In 2019, the University underwent the beginning of a restructuring plan. This action resulted in the payment of severance and fringe benefits of \$229,251. There were no similar payments 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 recorded through October 3, 2019, which is the date the consolidated financial statements were issued.