

# OHIO NORTHERN UNIVERSITY

**Independent Auditor's Report and Consolidated Financial Statements**  
May 31, 2020 and 2019

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# Ohio Northern University

May 31, 2020 and 2019

## Contents

<b>Independent Auditor's Report.....</b>	<b>1</b>
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### **Consolidated Financial Statements**

Statements of Financial Position .....	3
Statements of Activities.....	4
Statements of Functional Expenses .....	6
Statements of Cash Flows .....	7
Notes to Financial Statements .....	8

## Independent Auditor's Report

Board of Trustees  
Ohio Northern University  
Ada, Ohio

### Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Ohio Northern University (University), which comprise the consolidated statement of financial position as of May 31, 2020 and 2019, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the 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, 2020 and 2019, 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 discussed in Note 2 to the consolidated financial statements, the 2019 consolidated financial statements have been restated to correct a misstatement. 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 September 16, 2020, on our consideration of the University's internal control over financial reporting and 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  
September 16, 2020

**Ohio Northern University**  
**Consolidated Statements of Financial Position**  
**May 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b> <b>(Restated -Note 2)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,986,168	\$ 2,026,023
Student accounts receivable, net of allowance of \$1,141,299 in 2020 and \$1,254,596 in 2019	1,386,247	1,233,683
Contributions receivable, net of allowance of \$100,000 in 2020 and 2019	1,240,087	2,721,102
Other receivables	1,453,220	1,953,035
Cash equivalents and investments restricted for loans and long-lived asset purchases	2,882,911	5,292,008
Inventories	279,856	301,510
Prepaid expenses	1,378,223	1,370,238
Investments	166,102,351	163,631,311
Notes receivable, net of allowance of \$85,963 in 2020 and \$69,344 in 2019	10,727,609	11,416,268
Assets held in charitable remainder trusts	1,012,516	1,197,139
Property and equipment	154,244,690	148,577,976
Cash value of life insurance	813,796	868,642
Beneficial interest in remainder trusts	2,893,780	3,156,008
Beneficial interest in perpetual trusts	15,565,264	15,294,521
	<u>\$ 362,966,718</u>	<u>\$ 359,039,464</u>
Total assets	<u>\$ 362,966,718</u>	<u>\$ 359,039,464</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 2,096,998	\$ 6,048,055
Accrued expenses	8,392,036	7,806,879
Deferred revenue and deposits	6,718,053	6,683,444
Long-term debt	86,447,232	74,496,361
Annuities and trusts payable	3,016,553	2,486,421
Postretirement medical benefits	3,863,312	8,620,062
Other	350,564	569,452
U.S. Government refundable advances	7,832,557	9,254,880
Total liabilities	<u>118,717,305</u>	<u>115,965,554</u>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	38,597,663	34,396,242
Designated by the Board for endowment	11,466,676	11,453,107
Designated by the Board for capital acquisition	-	3,000,000
	<u>50,064,339</u>	<u>48,849,349</u>
With donor restrictions		
Perpetual in nature	105,012,282	98,764,231
Purpose restriction	68,473,347	72,871,257
Time-restricted for future periods	2,038,111	4,789,727
Trusts, charitable gift annuities, and other activities	20,305,421	19,683,426
Underwater endowments	(1,644,087)	(1,884,080)
	<u>194,185,074</u>	<u>194,224,561</u>
Total net assets	<u>244,249,413</u>	<u>243,073,910</u>
Total liabilities and net assets	<u>\$ 362,966,718</u>	<u>\$ 359,039,464</u>

**Ohio Northern University**  
**Consolidated Statement of Activities**  
**Year Ended May 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Income and Other Support</b>			
Tuition and fees, net	\$ 49,095,124	\$ -	\$ 49,095,124
Gifts and bequests	1,406,233	1,109,673	2,515,906
Grants and contracts	3,407,615	898,053	4,305,668
Investment return designated for operations	7,567,476	3,183,394	10,750,870
Investment income from trusts held by others	551,359	26,007	577,366
Other investment income	56,695	-	56,695
Other	2,559,701	-	2,559,701
Auxiliary enterprises	16,778,948	-	16,778,948
Net assets released from restrictions for operating items	4,794,905	(4,794,905)	-
Total revenue, income and other support	86,218,056	422,222	86,640,278
<b>Expenses</b>			
Instruction	37,739,158	-	37,739,158
Sponsored programs	2,743,678	-	2,743,678
Academic support	4,047,285	-	4,047,285
Libraries	2,778,767	-	2,778,767
Student services	12,669,120	-	12,669,120
Auxiliary	20,235,830	-	20,235,830
Total educational activities	80,213,838	-	80,213,838
Institutional support	7,617,224	-	7,617,224
Fundraising	1,680,554	-	1,680,554
Total expenses	89,511,616	-	89,511,616
<b>Change in Net Assets Before Other Revenue (Expenses)</b>	(3,293,560)	422,222	(2,871,338)
<b>Other Revenue (Expenses)</b>			
Gifts restricted for endowment	-	5,548,114	5,548,114
Gifts restricted for acquisition of long-lived assets	-	840,754	840,754
Investment return less amounts designated for operations	(236,623)	(2,674,303)	(2,910,926)
Change in value of split-interest agreements	-	(594,223)	(594,223)
Actuarial adjustment to postretirement medical benefit liability	273,903	-	273,903
Change in asset retirement obligation	74,697	-	74,697
Change in beneficial interest in perpetual trusts	-	814,522	814,522
Satisfaction of capital acquisition restrictions	4,396,573	(4,396,573)	-
Total other revenue (expenses)	4,508,550	(461,709)	4,046,841
<b>Change in Net Assets</b>	1,214,990	(39,487)	1,175,503
<b>Net Assets, Beginning of Year</b>	48,849,349	194,224,561	243,073,910
<b>Net Assets, End of Year</b>	\$ 50,064,339	\$ 194,185,074	\$ 244,249,413

**Ohio Northern University**  
**Consolidated Statements of Activities**  
**Year Ended May 31, 2019 (Restated)**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Income and Other Support</b>			
Tuition and fees, net	\$ 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	(124,042)	(9,263,755)	(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
Loss on extinguishment of debt	-	377,239	377,239
Change in beneficial interest in perpetual trusts	(229,251)	-	(229,251)
Satisfaction of capital acquisition restrictions	591,446	(591,446)	-
Total other revenue (expenses)	<u>(474,448)</u>	<u>(6,021,489)</u>	<u>(6,495,937)</u>
<b>Change in Net Assets</b>	<u>(3,422,453)</u>	<u>(3,823,569)</u>	<u>(7,246,022)</u>
<b>Net Assets, Beginning of Year, as Previously Reported</b>	45,055,592	205,264,340	250,319,932
<b>Restatement Related to Reclassification of Net Assets (Note 2)</b>	<u>7,216,210</u>	<u>(7,216,210)</u>	<u>-</u>
<b>Net Assets, Beginning of Year, Restated</b>	<u>52,271,802</u>	<u>198,048,130</u>	<u>250,319,932</u>
<b>Net Assets, End of Year</b>	<u>\$ 48,849,349</u>	<u>\$ 194,224,561</u>	<u>\$ 243,073,910</u>

**Ohio Northern University**  
**Consolidated Statements of Functional Expenses**  
**Years Ended May 31, 2020 and 2019**

	Educational Activities						Supporting Activities				
	Instruction	Sponsored Programs	Academic Support	Libraries	Student Services	Auxiliary	Total Educational Activities	Institutional Support	Fundraising	Total Support	Total Expenses
<b>2020</b>											
Salary & Wages	\$ 23,698,798	\$ 718,107	\$ 1,754,897	\$ 788,654	\$ 5,542,728	\$ 1,128,646	\$ 33,631,830	\$ 2,962,998	\$ 1,004,529	\$ 3,967,527	\$ 37,599,357
Fringe Benefits	3,405,181	80,269	324,727	147,953	1,090,133	93,467	5,141,730	497,105	124,684	621,789	5,763,519
Total Compensation and Benefits	27,103,979	798,376	2,079,624	936,607	6,632,861	1,222,113	38,773,560	3,460,103	1,129,213	4,589,316	43,362,876
Interest and Debt-Related	526,636	-	30,586	122,019	31,074	1,786,140	2,496,455	36,931	-	36,931	2,533,386
Depreciation and Amortization	3,194,104	-	242,067	243,758	928,752	3,709,019	8,317,700	225,093	6,062	231,155	8,548,855
Professional and Contracted Services	1,466,371	156,362	964,610	286	1,336,943	2,813,964	6,738,536	1,651,078	179,361	1,830,439	8,568,975
Hospitality & Events	214,432	10,367	2,154	1,651	188,684	1,072	418,360	188,063	71,513	259,576	677,936
Student Programming	384,812	1,408,557	14,352	-	405,342	-	2,359,527	221,795	268	222,063	2,581,590
Library Acquisitions	-	-	-	1,004,961	-	-	1,004,961	107,806	-	107,806	1,112,767
Plant Operation & Maintenance	2,574,650	-	86,503	292,884	697,471	2,964,254	6,615,762	157,340	38,143	195,483	6,811,245
Repairs and Maintenance	320,754	169,007	126,376	59,503	83,158	425,372	1,184,170	127,059	328	127,387	1,311,557
Supplies	672,888	75,596	160,211	61,445	549,332	69,953	1,589,425	(46,767)	19,002	(27,765)	1,561,660
Utilities and Communications	18,311	-	25,603	52	98,084	1,036,802	1,178,852	35,756	909	36,665	1,215,517
Travel	671,666	106,981	17,214	10,670	1,261,415	18,069	2,086,015	78,690	75,620	154,310	2,240,325
Auxiliary Cost of Sales	-	-	-	-	-	4,079,751	4,079,751	-	-	-	4,079,751
The Inn	-	-	-	-	-	1,708,387	1,708,387	-	-	-	1,708,387
General Expenses	590,555	18,432	297,985	44,931	456,004	254,470	1,662,377	1,374,277	160,135	1,534,412	3,196,789
	<b>\$ 37,739,158</b>	<b>\$ 2,743,678</b>	<b>\$ 4,047,285</b>	<b>\$ 2,778,767</b>	<b>\$ 12,669,120</b>	<b>\$ 20,235,830</b>	<b>\$ 80,213,838</b>	<b>\$ 7,617,224</b>	<b>\$ 1,680,554</b>	<b>\$ 9,297,778</b>	<b>\$ 89,511,616</b>
<b>2019</b>											
Salary & Wages	\$ 24,592,212	\$ 629,557	\$ 1,705,745	\$ 869,433	\$ 5,422,904	\$ 1,244,315	\$ 34,464,166	\$ 3,134,556	\$ 1,212,706	\$ 4,347,262	\$ 38,811,428
Fringe Benefits	3,935,281	120,360	358,424	189,752	1,238,784	109,767	5,952,368	380,191	167,047	547,238	6,499,606
Total Compensation and Benefits	28,527,493	749,917	2,064,169	1,059,185	6,661,688	1,354,082	40,416,534	3,514,747	1,379,753	4,894,500	45,311,034
Interest and Debt-Related	59,761	-	-	126,613	32,188	1,869,597	2,088,159	-	-	-	2,088,159
Depreciation and Amortization	2,645,967	-	186,726	242,051	902,834	3,701,942	7,679,520	182,733	5,272	188,005	7,867,525
Professional and Contracted Services	1,407,372	147,491	861,957	406	1,131,714	2,660,325	6,209,265	1,723,930	109,310	1,833,240	8,042,505
Hospitality & Events	236,979	7,734	1,989	1,883	229,714	5,806	484,105	277,159	52,146	329,305	813,410
Student Programming	387,938	338,147	38,672	-	405,566	193,309	1,363,632	250,563	363	250,926	1,614,558
Library Acquisitions	-	-	-	1,053,017	-	-	1,053,017	(10,445)	-	(10,445)	1,042,572
Plant Operation & Maintenance	2,270,719	-	53,985	306,584	729,802	3,099,160	6,460,250	164,622	39,989	204,611	6,664,861
Repairs and Maintenance	234,408	8,696	120,571	54,879	99,105	391,731	909,390	30,882	2,173	33,055	942,445
Supplies	821,853	87,609	43,794	73,950	432,276	69,950	1,529,432	(57,882)	17,671	(40,211)	1,489,221
Utilities and Communications	21,895	-	31,296	625	98,350	1,264,818	1,416,984	8,169	2,461	10,630	1,427,614
Travel	1,171,556	137,108	39,942	13,227	1,075,212	20,815	2,457,860	111,666	106,486	218,152	2,676,012
Auxiliary Cost of Sales	-	-	-	-	-	4,797,645	4,797,645	-	-	-	4,797,645
The Inn	-	-	-	-	-	1,834,953	1,834,953	-	-	-	1,834,953
General Expenses	499,598	6,551	307,275	48,685	478,012	254,279	1,594,400	1,208,916	73,468	1,282,384	2,876,784
	<b>\$ 38,285,539</b>	<b>\$ 1,483,253</b>	<b>\$ 3,750,376</b>	<b>\$ 2,981,105</b>	<b>\$ 12,276,461</b>	<b>\$ 21,518,412</b>	<b>\$ 80,295,146</b>	<b>\$ 7,405,060</b>	<b>\$ 1,789,092</b>	<b>\$ 9,194,152</b>	<b>\$ 89,489,298</b>



**Ohio Northern University**  
**Consolidated Statements of Cash Flows**  
**Years Ended May 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Activities</b>		
Change in net assets	\$ 1,175,503	\$ (7,246,022)
Items not requiring (providing) operating activities cash flows		
Depreciation	8,516,582	7,835,122
Amortization of bond origination costs	32,273	32,403
Change in allowance for doubtful accounts	(96,678)	(199,145)
Net realized and unrealized (gains) losses on investments	(4,987,767)	439,553
Gain on sale of property and equipment	(780,735)	(15,450)
(Gain) loss on beneficial interest in perpetual trust	(270,743)	33,347
Contributions received and payments received on contributions receivable restricted for long-term investment	(5,849,537)	(3,645,705)
Contributions received and payments received on contributions receivable restricted for acquisition of long-lived assets	(2,039,497)	(2,338,985)
Changes in		
Student accounts receivable	(39,267)	561,976
Contributions receivable	1,481,015	1,435,785
Other receivables	499,815	20,425
Inventories	21,654	40,905
Prepaid expenses and other assets	(7,985)	(126,339)
Beneficial interest in remainder trusts	446,851	361,907
Accounts payable	(3,951,057)	933,997
Accrued expenses	585,157	470,540
Deferred revenue and deposits	34,609	851,532
Annuities and trusts payable	530,132	377,936
Postretirement medical benefits	(4,756,750)	(4,124,017)
Other liabilities	(218,888)	(18,126)
Net cash used in operating activities	<u>(9,675,313)</u>	<u>(4,318,361)</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(14,641,438)	(26,119,581)
Decrease in notes receivable	672,040	69,062
Purchases of investments	(108,501,228)	(104,622,328)
Proceeds from sales and maturities of investments	111,017,955	109,797,774
Proceeds from sale of fixed assets	1,238,877	26,257
(Increase) decrease in cash equivalents and investments restricted for loans and long-lived asset purchases	2,409,097	(623,795)
(Increase) decrease in cash value of life insurance	54,846	(22,809)
Net cash used in investing activities	<u>(7,749,851)</u>	<u>(21,495,420)</u>
<b>Financing Activities</b>		
Principal payments on bonds	(1,160,376)	(1,333,379)
Issuance of new debt	13,078,974	19,609,492
Proceeds from contributions received and payments received on contributions receivable restricted for long-term investment	5,849,537	3,645,705
Proceeds from contributions received and payments received on contributions receivable restricted for acquisition of long-lived assets	2,039,497	2,338,985
Increase (decrease) in U.S. Government refundable advances	(1,422,323)	47,100
Net cash provided by financing activities	<u>18,385,309</u>	<u>24,307,903</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	960,145	(1,505,878)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,026,023</u>	<u>3,531,901</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,986,168</u>	<u>\$ 2,026,023</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 2,825,187	\$ 2,049,241
Property and equipment purchases included in accounts payable	61,094	-

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

#### **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, 2020 and 2019, cash equivalents consisted primarily of money market funds.

At May 31, 2020, the University's cash accounts, which are held at multiple financial institutions, exceeded federally insured limits by approximately \$4,200,000. 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. Deposit accounts that are limited as to use, or restricted externally by regulators, are not considered to be cash and cash equivalents.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

#### ***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 of consideration from students of which the University has the unconditional right to receive. 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 \$613,500 and \$1,067,600 at May 31, 2020 and 2019, 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, 2020 and 2019

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:

	2020	2019
Total interest expense incurred on borrowings for project	\$ 506,994	\$ 348,450
Interest costs capitalized	506,994	348,450
	2020	2019
Interest costs capitalized	\$ 506,994	\$ 348,450
Interest costs charged to expense	2,533,386	2,088,159
Total interest incurred	\$ 3,040,380	\$ 2,436,609

#### ***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 2020 or 2019.

#### ***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, 2020 and 2019

#### **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**

Contributions are provided to the University either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<u><i>Conditional gifts, with or without restriction</i></u>	
Gifts that depend on the University overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<u><i>Unconditional gifts, with or without restriction</i></u>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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 statements of activities as net assets released from restrictions. Absent explicit donor stipulations

# **Ohio Northern University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2020 and 2019**

for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

#### ***Government Grants***

Support funded by grants is recognized as the University meets the conditions prescribed by the grant agreement, 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 2016. 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, 2020 and 2019. 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, 2020 and 2019, the University had an accrual of \$826,154 and \$811,173, respectively, for unused vacation leave. There is no accrual for sick pay.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**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. The statement of functional expenses presents the natural classification detail of expenses by function. 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: Restatement**

The University recorded certain contributions and investment return as revenues and net assets with donor restrictions, which should have previously been recorded as net assets without donor restrictions. Net asset classifications relating to these items have been restated as of June 1, 2018, however the correction had no impact on total net assets or total changes in net assets of the University.

The following financial statement line items were affected by the restatements:

<b>Statement of Financial Position</b>	<b>As Previously Reported May 31, 2019</b>	<b>Restated May 31, 2019</b>	<b>Restatement</b>
<b>Net Assets</b>			
Without donor restrictions, Designated by the Board for endowment	\$ 4,406,309	\$ 11,453,107	\$ 7,046,798
Without donor restrictions	41,802,551	48,849,349	7,046,798
With donor restrictions, perpetual in nature	101,564,566	98,764,231	(2,800,335)
With donor restrictions, purpose restriction	77,117,720	72,871,257	(4,246,463)
With donor restrictions	201,271,359	194,224,561	(7,046,798)
<b>Statement of Activities</b>	<b>As Previously Reported Year Ended May 31, 2019</b>	<b>Restated Year Ended May 31, 2019</b>	<b>Restatement</b>
Investment return less amounts designated for operations without donor restrictions	\$ 45,370	\$ (124,042)	\$ (169,412)
Investment return less amounts designated for operations with donor restrictions	(9,433,167)	(9,263,755)	169,412
Total other revenue (expense) without donor restrictions	(305,036)	(474,448)	(169,412)
Total other revenue (expense) with donor restrictions	(6,190,901)	(6,021,489)	169,412
Change in net assets without donor restrictions	(3,253,041)	(3,422,453)	(169,412)
Change in net assets with donor restrictions	(3,992,981)	(3,823,569)	169,412

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 3: Change in Accounting Principles**

**Revenue Recognition**

As of June 1, 2019, the University adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption for all contracts in effect as of June 1, 2019.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to students in amounts that reflect the consideration to which the University expects to be entitled in exchange for those goods or services.

The amount to which the University expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

The adoption has no impact on overall change in net assets or net cash provided by operating activities.

**Contributions Received and Contributions Made**

As of June 1, 2019, the University adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified prospective method of adoption to all agreements that were not completed as of June 1, 2019.

The intent of ASU 2018-08 is to assist an organization in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions, or if the transactions are considered reciprocal and should be accounted for as exchange transactions. Additionally, the revised guidance helps entities evaluate whether a contribution is conditional or unconditional.

Adoption of ASU 2018-08 resulted in no changes to previously reported net assets or changes in net assets.

**Note 4: Contributions Receivable**

Contributions receivable at May 31 consisted of the following:

Discount rates ranged from 1.27 percent to 2.69 percent for 2020 and 2019.

	<b>2020</b>	<b>2019</b>
Less than one year	\$ 673,508	\$ 1,874,952
Due one to five years	683,018	976,943
Due after five years	10,300	16,500
	<u>1,366,826</u>	<u>2,868,395</u>
Less allowance for uncollectible contributions	(100,000)	(100,000)
Less present value discount	<u>(26,739)</u>	<u>(47,293)</u>
	<u>\$ 1,240,087</u>	<u>\$ 2,721,102</u>



**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 5: Investments and Investment Return**

Investments at May 31 consisted of the following:

	<b>2020</b>	<b>2019</b>
Cash and money market funds	\$ 10,216,752	\$ 1,722,208
Common stocks	5,100,758	6,003,852
U.S. Government and agency obligations	544,437	571,749
Corporate debt securities	919,177	646,582
Equity mutual funds		
International markets	22,513,621	33,114,119
Large cap blend and growth	35,434,677	30,494,684
Small and mid-cap	240,536	3,669,774
Fixed income mutual funds	25,803,706	25,650,253
Alternative investments		
Common trust funds	13,524,105	9,853,386
Multi-strategy hedge funds	10,107	3,883,652
Private equity funds	49,834,240	45,091,858
Real estate investment funds	1,898,990	2,867,949
Land held for sale	61,245	61,245
	<u>\$ 166,102,351</u>	<u>\$ 163,631,311</u>

The University's net assets with donor restrictions include various endowment funds established by donors. At May 31, 2020 and 2019, the fair value of the assets of some of these funds was \$1,644,087 and \$1,884,080, respectively, less than the level required by donor stipulation or law.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

Total investment return is comprised of the following:

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating</b>			
Endowment income and gains distributed	\$ 7,567,476	\$ 3,183,394	\$ 10,750,870
Total operating	<u>7,567,476</u>	<u>3,183,394</u>	<u>10,750,870</u>
<b>Non-operating</b>			
Interest and dividend income (net of expenses)	2,852,177	-	2,852,177
Net realized and unrealized gains	4,478,676	509,091	4,987,767
Investment return designated for current operations	<u>(7,567,476)</u>	<u>(3,183,394)</u>	<u>(10,750,870)</u>
Total non-operating	<u>(236,623)</u>	<u>(2,674,303)</u>	<u>(2,910,926)</u>
Total return on investments	<u>\$ 7,330,853</u>	<u>\$ 509,091</u>	<u>\$ 7,839,944</u>

	<b>2019 (Restated - Note 2)</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	(189,024)	(250,529)	(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>(124,042)</u>	<u>(9,263,755)</u>	<u>(9,387,797)</u>
Total return (loss) on investments	<u>\$ 2,778,772</u>	<u>\$ (250,529)</u>	<u>\$ 2,528,243</u>

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

	<b>2020</b>	<b>2019</b>
Capital projects and debt service	\$ 1,550,323	\$ 2,655,746
Loan funds	<u>1,332,587</u>	<u>2,636,262</u>
Total	<u>\$ 2,882,911</u>	<u>\$ 5,292,008</u>

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**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, 2020</b>			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private common trust funds (A)	\$ 13,524,105	\$ -	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	10,107	-	Monthly-Quarterly	30-90 days
Private equity funds (C)	49,834,240	23,332,111	Nonredeemable	N/A
Real estate investment funds (D)	1,898,990	8,000,000	Nonredeemable	N/A

  

	<b>May 31, 2019</b>			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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

- (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, 2020.
- (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, 2020.
- (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 \$23,332,111 and \$32,029,500 at May 31, 2020 and 2019, respectively. Subsequent to May 31, 2020, the University paid \$260,000 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' 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

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

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, 2020 and 2019. Pursuant to fund agreements, the University has committed to fund future capital calls on the one fund totaling \$8,000,000 at May 31, 2020 and 2019. Subsequent to May 31, 2020, the University paid \$0 to fund capital calls.

#### Note 6: 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 \$7,832,557 and \$9,254,880 as of May 31, 2020 and 2019, 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 2.2 percent and 2.6 percent of total assets as of May 31, 2020 and 2019, 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:

	2020	2019
Student loans receivable		
Federal government programs	\$ 7,998,456	\$ 8,611,137
Institutional programs	2,815,116	2,874,475
Total student loans receivable	10,813,572	11,485,612
Less allowance for doubtful accounts		
Balance, beginning of year	(69,344)	(58,072)
Provision charged to expense	(16,619)	(11,272)
Balance, end of year	(85,963)	(69,344)
Net loans receivable	\$ 10,727,609	\$ 11,416,268

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 7: Property and Equipment**

Property and equipment are summarized as follows at May 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 8,159,275	\$ 8,159,275
Land improvements	10,442,992	9,591,421
Buildings	235,339,437	203,314,381
Equipment, furniture, fixtures and vehicles	25,363,680	21,321,446
Collections	1,864,029	1,864,029
Construction in progress	3,445,354	26,639,299
	<u>284,614,767</u>	<u>270,889,851</u>
Less accumulated depreciation	<u>(130,370,077)</u>	<u>(122,311,875)</u>
	<u>\$ 154,244,690</u>	<u>\$ 148,577,976</u>

The following construction commitments exist as of May 31:

	<u>2020</u>	<u>2019</u>
New Engineering Education Building	\$ -	\$ 5,644,323
New Information Technology Building	-	55,865
Demolition of Clark Hall	-	9,772
Repurposing of Biggs Building	-	553,851
	<u>\$ -</u>	<u>\$ 6,263,811</u>

**Note 8: 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 0.8 percent and 2.8 percent for May 31, 2020 and 2019, respectively, and applicable mortality tables. The estimated value of the expected future cash flows is \$2,893,780 and \$3,156,008 at May 31, 2020 and 2019, 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 \$15,565,264 and \$15,294,521, which represents the fair value of the trust assets at May 31, 2020 and 2019, respectively.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 9: Bonds Payable**

Bonds payable consist of the following:

	<u>2020</u>	<u>2019</u>
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	\$ 3,645,000	\$ 3,865,000
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	12,020,000	12,755,000
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	4,570,000	4,700,000
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	67,124,624	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	<u>87,359,624</u>	<u>75,441,026</u>
Less: Bond origination costs	<u>(912,392)</u>	<u>(944,665)</u>
Total bonds payable	<u>\$ 86,447,232</u>	<u>\$ 74,496,361</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 amount of bond origination costs associated with the Series 2013 bonds is \$312,919 and \$327,010 at May 31, 2020 and 2019, 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 amount of bond origination costs associated with the Series 2014 bonds is \$55,915 and \$59,827 at May 31, 2020 and 2019, 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 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,

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

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 \$543,558 and \$557,828 at May 31, 2020 and 2019, respectively.

Aggregate annual principal payments required on bonds payable at May 31, 2020, are:

2021		\$ 2,045,594
2022		2,110,963
2023		2,187,334
2024		1,979,740
2025		2,043,215
Thereafter		<u>76,992,778</u>
		<u>\$ 87,359,624</u>

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, 2020 and 2019, the University is in compliance with these covenants.

Interest expense was \$2,533,386 and \$2,088,159 for the years ended May 31, 2020 and 2019, respectively.

#### **Note 10: 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, 2020 and 2019, of \$2,168,172 and \$1,903,954, 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, 2020 and 2019, of \$848,381 and \$582,467, 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.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 11: 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>2020</u>	<u>2019</u>
Accumulated postretirement benefit obligation	\$ (3,863,312)	\$ (8,620,062)
Fair value of Plan assets	<u>-</u>	<u>-</u>
Funded status	<u>\$ (3,863,312)</u>	<u>\$ (8,620,062)</u>

Liabilities recognized in the consolidated statements of financial position:

	<u>2020</u>	<u>2019</u>
Accrued benefit liability	<u>\$ (3,863,312)</u>	<u>\$ (8,620,062)</u>

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

	<u>2020</u>	<u>2019</u>
Net loss	\$ 1,744,324	\$ 1,605,360
Prior service credit	<u>(7,157,353)</u>	<u>(6,742,462)</u>
	<u>\$ (5,413,029)</u>	<u>\$ (5,137,102)</u>

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

	<b>Pension Benefits</b>	
	<u>2020</u>	<u>2019</u>
Amounts arising during the period		
Net loss	\$ 510,641	\$ 190,743
New prior service cost	(4,800,899)	(4,148,191)
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	(371,677)	(140,210)
Net prior service credit	4,386,008	4,766,324



**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

A reconciliation of the projected postretirement medical benefit obligation follows:

	<b>Pension Benefits</b>	
	<b>2020</b>	<b>2019</b>
Change in benefit obligation		
Obligation at June 1	\$ 8,620,062	\$ 12,744,079
Service cost	11,831	78,478
Interest cost	256,593	482,569
Actuarial loss	510,641	190,743
Benefit payments	(734,916)	(727,616)
Plan amendments	(4,800,899)	(4,148,191)
	<u>\$ 3,863,312</u>	<u>\$ 8,620,062</u>
Obligation at May 31	<u>\$ 3,863,312</u>	<u>\$ 8,620,062</u>

Other significant balances and costs as of May 31 are:

	<b>2020</b>	<b>2019</b>
Net periodic benefit costs	\$ (3,745,907)	\$ (4,065,067)
Employer contributions	734,916	727,616
Benefits paid	(734,916)	(727,616)

Components of net periodic postretirement benefit cost:

	<b>2020</b>	<b>2019</b>
Service cost	\$ 11,831	\$ 78,478
Interest cost	256,593	482,569
Amortization of prior service credit	(4,386,008)	(4,766,324)
Amortization of net loss	371,677	140,210
	<u>\$ (3,745,907)</u>	<u>\$ (4,065,067)</u>
Net periodic postretirement benefit cost	<u>\$ (3,745,907)</u>	<u>\$ (4,065,067)</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 \$678,996 and \$371,677, respectively.

The University expects to contribute \$560,083 to the Plan in fiscal year 2021. Shown below are the expected benefit payments for 2021 through 2025 and the five years thereafter:

2021	\$ 560,083
2022	273,911
2023	254,316
2024	248,888
2025	242,494
2026-2030	1,089,968

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:

	<b>2020</b>	<b>2019</b>
Discount rate	2.64%	3.52%
Health care cost trend rate	Not applicable	Not applicable

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 12: Net Assets**

***Net Assets with Donor Restrictions***

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

	<b>2020</b>	<b>2019</b> <b>(Restated - Note 2)</b>
Subject to expenditure for specified purpose		
Unexpended property and equipment funds	\$ 7,216,094	\$ 9,335,638
Scholarships	1,058,771	1,007,164
Instruction, academic support and research	6,810,698	6,206,291
Loan program funds	4,006,856	4,012,521
	<u>19,092,419</u>	<u>20,561,614</u>
Subject to the passage of time		
Charitable trust agreements	1,172,440	2,689,334
Promises to give that are restricted by donors	819,871	2,055,247
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	45,800	45,146
	<u>2,038,111</u>	<u>4,789,727</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Scholarships	26,875,023	29,312,211
Instruction and academic support	22,354,200	22,845,727
Term endowments	151,705	151,705
Underwater endowments	(1,644,087)	(1,884,080)
	<u>47,736,841</u>	<u>50,425,563</u>
Subject to endowment spending policy and appropriation		
Scholarships	69,861,996	66,171,906
Instruction and academic support	35,150,286	32,592,325
	<u>105,012,282</u>	<u>98,764,231</u>
Total endowments	152,749,123	149,189,794
Trusts, charitable gift annuities, and other activities to support:		
Promises to give that are restricted by donors	361,416	620,709
Any activity of the University	806,039	801,768
Scholarships	11,702,766	11,535,673
Instruction and academic support	3,278,688	3,179,309
Trusts and charitable gift annuities, net of obligations	4,156,512	3,545,967
	<u>20,305,421</u>	<u>19,683,426</u>
Total net assets with donor restrictions	<u>\$ 194,185,074</u>	<u>\$ 194,224,561</u>

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**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.

	<b>2020</b>	<b>2019</b>
Purpose restrictions accomplished		
Instruction, academic support and research	\$ 3,196,676	\$ 6,838,770
Scholarship and student relief	1,052,572	-
Trusts and charitable gift annuities	504,330	1,062,367
Other	41,327	48,240
Total net assets released from restrictions for operations	\$ 4,794,905	\$ 7,949,377
Property and equipment acquired and placed in service	\$ 4,396,573	\$ 591,446
Total satisfaction of capital acquisition restrictions	\$ 4,396,573	\$ 591,446

**Note 13: 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

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

- 6. Other resources of the University
- 7. Investment policies of the University

The composition of net assets by type of endowment fund at May 31, 2020 and 2019, was:

	<b>2020</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 11,466,676	\$ -	\$ 11,466,676
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	105,012,282	105,012,282
Term endowments	-	151,705	151,705
Accumulated investment gains	-	47,585,136	47,585,136
<b>Total endowment funds</b>	<b>\$ 11,466,676</b>	<b>\$ 152,749,123</b>	<b>\$ 164,215,799</b>

	<b>2019 (Restated - Note 2)</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 11,453,107	\$ -	\$ 11,453,107
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	-	98,764,231	98,764,231
Term endowments	-	151,705	151,705
Accumulated investment gains	-	50,273,858	50,273,858
<b>Total endowment funds</b>	<b>\$ 11,453,107</b>	<b>\$ 149,189,794</b>	<b>\$ 160,642,901</b>

Changes in endowment net assets for the years ended May 31, 2020 and 2019, were:

	<b>2020</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 11,453,107	\$ 149,189,794	\$ 160,642,901
Investment return			
Investment income	2,737,215	-	2,737,215
Net appreciation	4,836,857	494,622	5,331,479
Total investment return	7,574,072	494,622	8,068,694
Contributions	6,973	6,248,101	6,255,074
Appropriation of endowment assets for expenditure	(7,567,476)	(3,183,394)	(10,750,870)
<b>Endowment net assets, end of year</b>	<b>\$ 11,466,676</b>	<b>\$ 152,749,123</b>	<b>\$ 164,215,799</b>

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

	<b>2019 (Restated - Note 2)</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 11,601,526	\$ 154,674,923	\$ 166,276,449
Investment return			
Investment income	2,927,093	-	2,927,093
Net depreciation	(181,590)	(255,844)	(437,434)
Total investment return (loss)	2,745,503	(255,844)	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)
Endowment net assets, end of year	<u>\$ 11,453,107</u>	<u>\$ 149,189,794</u>	<u>\$ 160,642,901</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, 2020, funds with original gift values of \$19,486,393, fair values of \$17,842,306 and deficiencies of \$1,644,087, were 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. 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

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

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 \$3,600,000 and \$4,800,000 for the years ended May 31, 2020 and 2019, 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 \$1,094,678 and \$1,200,208 at May 31, 2020 and 2019, 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 14: 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 \$2,296,908 and \$2,350,950 for the years ended May 31, 2020 and 2019, respectively. The employees are 100 percent vested when funds are deposited to the Plan.

#### **Note 15: 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 level within the fair value hierarchy in which the fair value measurements fall at May 31, 2020 and 2019:

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

	2020			
	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	\$ 265,408	\$ 265,408	\$ -	\$ -
<b>Investments</b>				
Money market funds	9,951,344	9,951,344	-	-
Common stocks	5,100,758	3,218,908	-	1,881,850
U.S. Government and agency obligations	544,437	-	544,437	-
Corporate debt securities	919,177	-	919,177	-
Equity mutual funds				
International markets	22,513,621	22,513,621	-	-
Large cap blend and growth	35,434,677	35,434,677	-	-
Small and mid-cap	240,536	240,536	-	-
Fixed income mutual funds	25,803,706	25,803,706	-	-
Land held for sale	61,245	-	-	61,245
Alternative investments				
Common trust funds measured at net asset value (A)	13,524,105	-	-	-
Multi-strategy hedge funds measured at net asset value (A)	10,107	-	-	-
Private equity funds measured at net asset value (A)	49,834,240	-	-	-
Real estate investment funds measured at net asset value (A)	1,898,990	-	-	-
<b>Assets Held in Charitable Remainder Trusts</b>	1,012,516	956,978	30,296	25,242
<b>Beneficial Interest in Remainder Trusts</b>	2,893,780	-	-	2,893,780
<b>Beneficial Interest in Perpetual Trusts</b>	15,565,264	-	-	15,565,264

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

	2019			
	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	\$ 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)	9,853,386	-	-	-
Multi-strategy hedge funds measured at net asset value (A)	3,883,652	-	-	-
Private equity funds measured at net asset value (A)	45,091,858	-	-	-
Real estate investment funds measured at net asset value (A)	2,867,949	-	-	-
<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

(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 valuation hierarchy. The University has no assets or liabilities measured at fair value on a



**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

nonrecurring basis. There were no significant changes in valuation techniques for the year-ended May 31, 2020.

***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.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

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, 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	1,916,931	61,245	3,156,008	15,294,521
Total realized and unrealized gains (losses) included in change in net assets	-	-	(262,228)	270,743
Sales	(35,081)	-	-	-
Balance, May 31, 2020	<u>\$ 1,881,850</u>	<u>\$ 61,245</u>	<u>\$ 2,893,780</u>	<u>\$ 15,565,264</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, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (262,228)</u>	<u>\$ 270,743</u>
May 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (290,383)</u>	<u>\$ (33,347)</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, 2020</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Common stocks	\$ 1,881,850	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	2,893,781	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial interest in perpetual trusts	15,565,264	Discounted cash flows	Discount rates Market return rates	2% - 8%

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

	<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%

***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.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

**Note 16: 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:

	<b>2020</b>	<b>2019</b> <b>(Restated -Note 2)</b>
Financial assets, at year-end	\$ 173,168,073	\$ 171,565,154
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(15,085,563)	(16,549,093)
Subject to appropriation and satisfaction of donor restrictions	(142,508,803)	(138,816,374)
Investments related to split-interest agreements	(4,439,447)	(4,368,814)
Contributions receivable	(1,131,968)	(2,672,488)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(10,326,346)	(11,075,657)
Designated for capital acquisition	-	(3,000,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ (324,054)	\$ (4,917,272)

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 \$11,400,000. This amount is netted against restrictions subject to appropriation and satisfaction of donor restrictions in the table above.

The board-designated endowments of \$11,466,676 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, 2020 and 2019, the Board of Trustees designated \$0 and \$3,000,000 respectively 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 17: Coronavirus Aid, Relief, and Economic Security Act and Other Coronavirus Events**

As a result of the spread of the SARS-CoV-2 virus and the incident of COVID-19, the state of Ohio issued shelter-in-place orders and other measures around public gatherings and business operations to slow the spread of the virus. Furthermore, colleges and universities across the country took unprecedented action to protect the health and safety of students, including our campus. Beginning on March 16, 2020, campus operations were suspended and all students were transitioned to a

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

distance education framework through the end of the academic term. In addition, all summer classes were conducted through distance education and all summer conferences and events have been cancelled or postponed. Given the uncertainty in the epidemiological and economic outlook, there may be short and long-term implications for our instruction, student experience and operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES). The CARES Act created a Higher Education Emergency Relief Fund specifically for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and also direct aid to institutions to cover costs associated with the significant changes to the delivery of instruction due to COVID-19. The University was awarded a student share and an institutional share that totaled \$2,189,708 under this program and the University distributed all but approximately \$196,000 directly to 772 eligible students through emergency grants in May 2020. The remaining funds were disbursed subsequent to year end.

**Note 18: U.S. Department of Education Financial Responsibility Ratio Information**

The following information is required by the U.S. Department of Education for the year ended May 31, 2020:

	<b>2020</b>
Property, plant and equipment, net of accumulated depreciation - pre-implementation	\$ 114,777,719
Property, plant and equipment, net of accumulated depreciation - post-implementation with outstanding debt for original purchase	34,710,312
Property, plant and equipment, net of accumulated depreciation - post-implementation without outstanding debt for original purchase	1,311,255
Construction in progress	3,445,354
Total property, plant and equipment, net	\$ 154,244,640
Long-term debt obtained for long-term purposes - pre-implementation	\$ 54,707,824
Long-term debt obtained for long-term purposes - post-implementation	32,651,800
Total long-term debt	\$ 87,359,624

**Note 19: Revenue from Contracts with Students**

***Tuition, Housing and Meal Plan Services Revenue***

Revenue from contracts with students for tuition, housing and meal plan services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food and other services. These amounts are due from students, third-party payers and others and are net of scholarships and institutional aid of \$52,113,923 and \$50,065,596 for the years ended May 31, 2020 and 2019, respectively.

Revenue is recognized as performance obligations are satisfied, which is primarily ratably over the academic term, with the exception of meal plans that are recognized at a point in time. Generally, the University bills students prior to the beginning of the semester, and student accounts receivable are due in full before classes begin.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

If a student withdraws during the academic term, the student is refunded based on the terms published in the student handbook. No refunds are awarded after the semester is 60 percent complete. The University determines the refund liability at year-end based on actual experience subsequent to year-end.

Tuition, housing and meal plan services revenue are considered to be separate performance obligations. The University allocates the fees charged to students to tuition and housing, food and other services based on standalone charges to students for tuition and those other services.

#### ***Transaction Price and Recognition***

The University determines the transaction price based on standard charges for goods and services provided, reduced by certain institutional scholarships and aid in accordance with the University's policies for granting certain merit based aid. The University determines its estimates of explicit price concessions based on its discount policies and merit awards.

From time to time the University will incur student credit balances and student deposits which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of May 31, 2020 and 2019, the University has a liability for refunds or deposits from students recorded of approximately \$886,000 and \$311,000, respectively, which is included in accounts payable on the statements of financial position.

#### ***Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations***

Because all of its performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to providing instruction to students. The performance obligations for these contracts are generally completed when the academic term is completed.

The University has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the various payers that have different payment strategies.

**Ohio Northern University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2020 and 2019**

***Disaggregation of Revenue***

The composition of net student fees revenue by segment for the year ended May 31, 2020, is as follows:

	<b>2020</b>
Net tuition and fees	\$ 49,095,124
Room	10,023,532
Board	4,868,330
Other auxiliary	1,887,086
Other revenue	1,527,262
	\$ 67,401,334
	<b>2020</b>
Services transferred over time	\$ 59,118,656
Sales at point in time	8,282,678
	\$ 67,401,334

***Contract Balances***

The following table provides information about the University's receivables and contract liabilities from contracts with customers:

	<b>2020</b>
<b>Contract Assets</b>	
Accounts receivable, beginning of the year	\$ 1,585,242
Accounts receivable, end of the year	1,233,683
<b>Contract Liabilities</b>	
Deferred revenue, beginning of the year	1,670,670
Deferred revenue, end of the year	1,522,437

**Note 20: 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 37 percent and 11 percent of all contributions were received from two donors and one donor in 2020 and 2019, respectively.

# Ohio Northern University

## Notes to Consolidated Financial Statements

### May 31, 2020 and 2019

#### ***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 \$457,697 and \$532,394 at May 31, 2020 and 2019, 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 21: 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 22: 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. The University has recorded these expenses as non-operating due to its non-recurring nature. There were no similar payments in 2020.

#### **Note 23: Subsequent Events**

Subsequent events have been recorded through September 16, 2020, which is the date the consolidated financial statements were issued.