

**OHIO WESLEYAN UNIVERSITY
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2021 and 2020

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

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Independent Auditors' Report

Board of Trustees
Ohio Wesleyan University
Delaware, Ohio

We have audited the accompanying consolidated financial statements of Ohio Wesleyan University and subsidiaries (a nonprofit college), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the June 30, 2021 and 2020 financial statements of OWU Fund, LP, described in Note 1.A. OWU Fund, LP represents 39% and 37% of consolidated total assets as of June 30, 2021 and 2020, respectively, and 65% and 63% of consolidated investments as of June 30, 2021 and 2020, respectively. This entity was audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the reports of the other auditors. 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Wesleyan University and subsidiaries as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Meloney + Novotny LLC

Cleveland, Ohio
December 20, 2021

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 5,402,055	\$ 9,622,824
Accounts receivable:		
Students, net	932,965	1,155,386
Grants	401,065	465,964
Other	<u>1,059,647</u>	<u>944,823</u>
Total accounts receivable	2,393,677	2,566,173
Pledges receivable, net	16,102,148	16,733,329
Student loans receivable, net	3,099,629	3,591,910
Inventories and prepaid expenses	1,555,528	1,515,905
Investments	315,628,072	265,246,104
Interests in trusts	3,250,134	2,640,512
Land, buildings and equipment, net	144,737,934	131,323,960
Construction in progress	30,775,904	17,852,890
Total assets	<u><u>\$522,945,081</u></u>	<u><u>\$451,093,607</u></u>

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,919,393	\$ 7,188,150
Accrued compensation	6,864,920	8,719,512
Deferred income and deposits	3,640,744	4,473,632
Other accrued liabilities	3,942,676	2,684,035
Bonds and notes payable, net	54,864,967	56,332,444
Postretirement benefits other than pensions	6,581,974	6,987,015
Accrued pension liability	386,024	902,803
Annuities and unitrusts payable	2,332,215	2,432,682
Advances from federal government for student loans	<u>2,589,492</u>	<u>3,040,649</u>
Total liabilities	83,122,405	92,760,922
Net assets:		
Without donor restrictions	80,992,738	75,949,527
With donor restrictions	<u>358,829,938</u>	<u>282,383,158</u>
Total net assets	<u>439,822,676</u>	<u>358,332,685</u>
 Total liabilities and net assets	 <u>\$522,945,081</u>	 <u>\$451,093,607</u>

The accompanying notes are an integral part of these financial statements

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue, gains and other support:			
Tuition and fees	\$ 65,082,270		\$ 65,082,270
Less: University funded financial aid	(38,149,136)		(38,149,136)
Financial aid from outside sources	<u>(7,622,209)</u>		<u>(7,622,209)</u>
Net tuition and fees	19,310,925		19,310,925
Gifts, pledges and bequests	5,343,801	\$ 13,917,507	19,261,308
Other investment income	68,950	421	69,371
Investment return designated for current operations	418,097	12,818,043	13,236,140
Grants	1,119,384	5,335,949	6,455,333
Other income	807,212	124,615	931,827
Sales and services of auxiliary enterprises	13,277,899		13,277,899
Net assets released from restrictions	<u>22,620,179</u>	<u>(22,620,179)</u>	<u>-</u>
Total operating revenue, gains and other support	62,966,447	9,576,356	72,542,803
Operating expenses:			
Educational:			
Instruction	20,662,566		20,662,566
Student services	13,244,160		13,244,160
Academic support, including library	4,957,262		4,957,262
Auxiliary enterprises	12,464,369		12,464,369
Public services	199,395		199,395
Research	<u>251,164</u>		<u>251,164</u>
	51,778,916		51,778,916
Management and general	6,824,189		6,824,189
Fundraising	<u>3,789,215</u>		<u>3,789,215</u>
Total operating expenses	62,392,320		62,392,320
Net increase in net assets from operations	574,127	9,576,356	10,150,483
Nonoperating revenues and expenses:			
Gains on investments for nonoperating activities	2,387,703		2,387,703
Gains on investments in excess of amount designated for current operations	2,133,859	66,274,526	68,408,385
Postretirement obligation adjustment	391,766		391,766
Pension-related charges other than net periodic pension cost	464,446		464,446
Separation from university	(922,414)		(922,414)
Actuarial adjustment of split-interest agreements	<u>13,724</u>	<u>595,898</u>	<u>609,622</u>
Change in net assets	5,043,211	76,446,780	81,489,991
Net assets, beginning of year	<u>75,949,527</u>	<u>282,383,158</u>	<u>358,332,685</u>
Net assets, end of year	<u>\$ 80,992,738</u>	<u>\$358,829,938</u>	<u>\$439,822,676</u>

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue, gains and other support:			
Tuition and fees	\$ 68,288,230		\$ 68,288,230
Less: University funded financial aid	(38,546,310)		(38,546,310)
Financial aid from outside sources	(7,416,668)		(7,416,668)
Net tuition and fees	22,325,252		22,325,252
Gifts, pledges and bequests	6,141,022	\$ 13,413,817	19,554,839
Other investment income	201,111	1,614	202,725
Investment return designated for current operations	485,809	14,537,204	15,023,013
Grants	2,269,399	601,594	2,870,993
Other income	1,512,518	113,346	1,625,864
Sales and services of auxiliary enterprises	15,253,225		15,253,225
Net assets released from restrictions	15,281,065	(15,281,065)	-
Total operating revenue, gains and other support	63,469,401	13,386,510	76,855,911
Operating expenses:			
Educational:			
Instruction	25,295,379		25,295,379
Student services	13,589,584		13,589,584
Academic support, including library	5,468,094		5,468,094
Auxiliary enterprises	12,446,626		12,446,626
Public services	259,932		259,932
Research	180,740		180,740
	57,240,355		57,240,355
Management and general	6,745,086		6,745,086
Fundraising	3,324,377		3,324,377
Total operating expenses	67,309,818		67,309,818
Net (decrease) increase in net assets from operations	(3,840,417)	13,386,510	9,546,093
Nonoperating revenues and expenses:			
Losses on investments in excess of amount designated for current operations	(499,247)	(15,119,054)	(15,618,301)
Postretirement obligation adjustment	317,048		317,048
Pension-related charges other than net periodic pension cost	(199,674)		(199,674)
Loss on extinguishment of debt	(95,815)		(95,815)
Separation from university	(4,336,319)		(4,336,319)
Actuarial adjustment of split-interest agreements		(313,279)	(313,279)
Change in net assets	(8,654,424)	(2,045,823)	(10,700,247)
Net assets, beginning of year	84,603,951	284,428,981	369,032,932
Net assets, end of year	\$ 75,949,527	\$282,383,158	\$358,332,685

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2021 and 2020

	2021			
	<u>Educational</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
OPERATING EXPENSES				
Salaries	\$19,517,828	\$ 1,923,859	\$ 1,912,899	\$23,354,586
Employee benefits	7,265,281	1,424,960	682,772	9,373,013
Operating expenses	12,975,355	2,656,642	1,099,435	16,731,432
Facilities and maintenance	5,137,385	337,996	42,474	5,517,855
Depreciation	6,023,212	345,759	51,635	6,420,606
Interest	859,855	134,973		994,828
Total operating expenses	51,778,916	6,824,189	3,789,215	62,392,320
Separation from University	922,414			922,414
Total expenses	<u>\$52,701,330</u>	<u>\$ 6,824,189</u>	<u>\$ 3,789,215</u>	<u>\$63,314,734</u>
	2020			
	<u>Educational</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
OPERATING EXPENSES				
Salaries	\$23,311,918	\$ 2,176,864	\$ 1,878,210	\$27,366,992
Employee benefits	8,195,561	1,056,989	741,441	9,993,991
Operating expenses	14,440,413	2,402,366	613,103	17,455,882
Facilities and maintenance	5,022,367	714,572	44,934	5,781,873
Depreciation	5,457,542	348,959	46,689	5,853,190
Interest	812,554	45,336		857,890
Total operating expenses	57,240,355	6,745,086	3,324,377	67,309,818
Separation from University	4,046,376	267,383	22,560	4,336,319
Total expenses	<u>\$61,286,731</u>	<u>\$ 7,012,469</u>	<u>\$ 3,346,937</u>	<u>\$71,646,137</u>

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 81,489,991	\$ (10,700,247)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,420,606	5,853,190
Amortization of bond premium	(393,621)	(350,602)
Amortization of bond issuance costs	23,937	23,207
Loss on extinguishment of debt	-	95,815
Realized and unrealized (gains) losses on investments	(82,724,291)	595,288
Contributions, net of pledges, for permanently restricted purposes	(4,026,392)	(6,285,571)
Income restricted for long-term investment	(1,266,429)	(1,496,026)
(Increase) decrease in interests in trusts	(609,622)	313,279
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	172,496	(66,582)
Decrease in pledges receivable	631,181	2,084,171
Decrease in student loans receivable	492,281	415,836
(Increase) decrease in inventories and prepaid expenses	(39,623)	188,806
(Decrease) increase in accounts payable	(5,268,757)	5,017,251
(Decrease) increase in accrued compensation	(1,854,592)	3,106,408
Decrease in deferred income and deposits	(832,888)	(40,799)
Increase in other accrued liabilities	1,258,641	717,302
Decrease in postretirement benefits other than pensions	(405,041)	(317,048)
(Decrease) increase in accrued pension liability	(516,779)	199,674
(Decrease) in annuities and unitrusts payable	(100,467)	(613,854)
Decrease in advances from federal government for student loans	<u>(451,157)</u>	<u>(1,026,107)</u>
Net cash used in operating activities	<u>(8,000,526)</u>	<u>(2,286,609)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(32,757,594)	(19,893,385)
Sales (purchases) of securities, net	<u>32,342,323</u>	<u>(13,022,387)</u>
Net cash used in investing activities	<u>(415,271)</u>	<u>(32,915,772)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds and notes payable	(1,097,793)	(22,445,187)
Proceeds from bonds and notes payable	-	58,237,679
Payments for bond issuance costs	-	(443,676)
Contributions, net of pledges, for permanently restricted purposes	4,026,392	6,285,571
Income restricted for long-term investment	<u>1,266,429</u>	<u>1,496,026</u>
Net cash provided by financing activities	<u>4,195,028</u>	<u>43,130,413</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(4,220,769)</u>	<u>7,928,032</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,622,824</u>	<u>1,694,792</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,402,055</u>	<u>\$ 9,622,824</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,364,512</u>	<u>\$ 1,588,233</u>

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

- A. Organization – Ohio Wesleyan University (the University) is an independent, liberal arts institution of higher education offering various bachelor degree academic programs. The University derives its income from student tuition, gifts and grants, investment income, operation of residence halls and various related activities. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America for such institutions.

OWU Fund, LP (the Partnership or the OWU Fund) is a limited partnership which commenced operations January 1, 2012, in which the University is the sole limited partner and is intended to serve as a single investor fund for the administrative convenience of the investor. The Partnership acts as an investment vehicle for a significant portion of the University's endowment. The OWU Fund was audited by other auditors as of and for the years ended June 30, 2021 and 2020.

- B. Basis of Consolidation – These consolidated financial statements include the accounts of the University and OWU Fund, LP (OWU Fund). All significant intercompany activity was eliminated in consolidation.
- C. Basis of Presentation – The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Assets and liabilities presented in the consolidated statements of financial position are recorded in order of liquidity or nearness to conversion to cash. The University has reported information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions based upon the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions – Net assets whose use by the University is subject to donor-imposed stipulations. Some donor-imposed stipulations are temporary in nature, such as those that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates resources be maintained in perpetuity by the University. Generally, donors of these assets permit the University to use all or part of the income earned on these assets. Such assets primarily include the University's permanent endowment funds.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expiration of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another is reported as reclassifications between the applicable classes of net assets. Changes in designations of net assets represent donor reclassifications of gifts received in prior years and, therefore, do not represent operating activity in the consolidated statements of activities.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at the time the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

The University follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same period as received as net assets with donor restrictions.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as net assets without donor restrictions. Contributions of cash or other assets that the donor stipulates are to be used to acquire land, building and equipment are reported as net assets with donor restrictions. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

The University has evaluated all subsequent events through November 16, 2021, which is the date the consolidated financial statements were available to be issued.

- D. 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- E. Concentrations of Credit Risk – Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, investments and student accounts and notes receivable. The University places its temporary cash investments with various financial institutions. Concentration of credit risk for investments is limited by the University's policy of asset allocation among different investment types. Concentration of credit risk for student accounts and notes receivable is limited due to the large base of accounts and geographic diversification.
- F. Cash and Cash Equivalents – Cash and cash equivalents include amounts on deposit with various financial institutions, including interest-bearing demand deposit accounts, which, at times, may exceed federally insured amounts. Cash equivalents also include all U.S. Government obligations, commercial paper and corporate notes with original maturities of three months or less, except those held for long-term investment, which are classified with investments.
- G. Student Accounts Receivable – The University has provided an allowance for uncollectible accounts receivable. Management estimates the allowance based on its review of delinquent accounts and an assessment of the University's historical evidence of collections. The allowance was \$1,236,906 and \$927,716 at June 30, 2021 and 2020, respectively.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

- H. Student Loans Receivable – The University participates with the U.S. Department of Education in the Federal Perkins Loan Program for the purpose of granting low interest loans (5% at June 30, 2021 and 2020) to students demonstrating financial need. After a student's graduation or withdrawal, Perkins loans are to be repaid over a maximum of ten years. The allowance for uncollectible student loans was \$550,000 at June 30, 2021 and 2020. Under federal law, the authority for schools to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted through June 30, 2018.

Perkins funds are ultimately refundable to the U.S. Government to the extent funds are available from the program. Consequently, these funds are shown as a liability in the consolidated statements of financial position. The interest rates charged on substantially all Federal Perkins loans receivable are fixed by the U.S. Department of Education. The interest rates charged on University loans receivable are fixed by the University and do not fluctuate with market conditions.

- I. Inventories – The carrying value of inventories approximates cost, under the first-in, first-out method, not in excess of net realizable value.
- J. Fair Value of Financial Instruments – The University has disclosed fair value information about financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flows or other evaluation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Due to their short-term nature, the carrying values of cash and cash equivalents, receivables, accounts payable and other accrued expenses reported in the accompanying consolidated statements of financial position approximate their fair value. The carrying value of the University's long-term debt is based on the University's current incremental borrowing rates for similar types of borrowing arrangements, which approximate fair value.

The carrying value of the University's investments approximates their fair value in accordance with the Fair Value Measurements standards, as defined by accounting principles generally accepted in the United States of America. These standards establish a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements:

Level 1 – Quoted market prices in active markets for identical assets and liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs in which little or no market data exists.

The asset's or liability's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used from 2020 to 2021.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

The following tables set forth by level the University's assets and liabilities that are accounted for at a fair value on a recurring basis as of June 30, 2021 and 2020:

	2021			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Fixed income	\$ 2,694,860	\$ -	\$ -	\$ 2,694,860
Other	653,236	-	11,097	664,333
U.S. Government securities	94,380	-	-	94,380
Common stocks	17,792,195	-	-	17,792,195
Depository receipts	1,066,727	-	-	1,066,727
Derivative investment warrant	4,640	-	-	4,640
Exchange-traded funds				
Global equity	25,741,888	-	-	25,741,888
Real assets	11,296,172	-	-	11,296,172
U.S. equity	28,863,969	-	-	28,863,969
Fixed income	4,185,210	-	-	4,185,210
Mutual funds				
Global equity	18,229,268	-	-	18,229,268
U.S. equity	6,332,582	-	-	6,332,582
Fixed income	14,940,198	-	-	14,940,198
Money market mutual funds	2,168,573	-	-	2,168,573
Cash and cash equivalents	1,498,917	-	-	1,498,917
Total investments in the fair value hierarchy	<u>\$135,562,815</u>	<u>\$ -</u>	<u>\$ 11,097</u>	135,573,912
Investments measured at NAV ¹				<u>180,054,160</u>
Total investments				<u>\$315,628,072</u>
Interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,250,134</u>	<u>\$ 3,250,134</u>

¹ Restrictions on redemption:

Triennial redemptions, 90-day notice	\$19.8M
Quarterly redemption, 60-day notice	\$2.4M
Monthly redemption, 60-day notice	\$5.0M
Monthly redemptions, 30-day notice	\$43.4M
Makena investment subject to one year notice on eligible amounts	\$100.9M
Remaining investments do not have restrictions more than 30 days on their redemption.	

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

	2020			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Fixed income	\$ 2,504,401	\$ -	\$ -	\$ 2,504,401
Other	647,832	-	1,188,097	1,835,929
U.S. Government securities	94,377	-	-	94,377
Common stocks	15,105,199	-	-	15,105,199
Depository receipts	796,793	-	-	796,793
Exchange-traded funds				
Global equity	26,514,951	-	-	26,514,951
Real assets	9,738,457	-	-	9,738,457
U.S. equity	24,044,641	-	-	24,044,641
Fixed income	4,413,843	-	-	4,413,843
Mutual funds				
Global equity	13,209,660	-	-	13,209,660
U.S. equity	4,511,742	-	-	4,511,742
Fixed income	11,379,920	-	-	11,379,920
Money market mutual funds				
	1,263,169	-	-	1,263,169
Cash and cash equivalents	24,022,736	-	-	24,022,736
Total investments in the fair value hierarchy	<u>\$138,247,721</u>	<u>\$ -</u>	<u>\$1,188,097</u>	139,435,818
Investments measured at NAV ²				<u>125,810,286</u>
Total investments				<u>\$265,246,104</u>
Interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,640,512</u>	<u>\$ 2,640,512</u>

² Restrictions on redemption:

Triennial redemptions, 90-day notice	\$4.4M
Quarterly redemption, 60-day notice	\$3.5M
Monthly redemption, 60-day notice	\$5.0M
Monthly redemptions, 30-day notice	\$10.5M
Makena investment subject to one year notice on eligible amounts	\$68.0M
Remaining investments do not have restrictions more than 30 days on their redemption.	

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

Investments – Since January 1, 2012, the University has invested in securities primarily through the OWU Fund and Makena Capital Management (Makena). The University, through the OWU Fund, invests in cash and cash equivalents, common stocks, mutual funds, fixed income and other securities with quoted prices in active markets that are considered to be Level 1 inputs. Any investments with underlying holdings classified as Level 1 but legally structured with limited redemption rights (most limited partnerships and master trusts) have been valued using net asset value (NAV). A portion of the University's investments is valued at Level 3 because of unobservable inputs and use of significant management judgment. This includes real assets which are based on valuations provided by external parties.

The University's investments with OWU Fund - commingled funds, hedge funds, private equity funds and Makena - multi-asset class portfolio are valued using NAV as a practical expedient.

Investments measured at NAV:

OWU Fund Commingled Funds and Hedge Funds – Commingled funds consist of assets from multiple accounts that are pooled together to create economies of scale. Hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). Liquidity of individual hedge funds varies based on various factors and may include "gates," "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. The hedge fund investments in Underlying Funds are available for redemption on a specified basis after specified lock-up periods as defined in each Underlying Fund's governing documents. For the purposes of these consolidated financial statements, the next available redemption dates provided are those with no associated fees. In certain investments, earlier redemption is available with accompanying early redemption fees.

OWU Fund Private Equity Funds – Private equity funds are structured as closed-end, commitment-based investment funds where the Partnership commits a specified amount of capital upon inception of the fund (i.e., committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit commitments by new or existing investors. The Partnership may invest in secondary fund of funds, which are Underlying Funds that purchase interests in other funds on the secondary market. The General Partner generally uses the capital balance reported by the Underlying Fund's manager as the primary input to its valuation; however, adjustments to the reported capital balance may be made based on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, and any restrictions or illiquidity on such interests and the fair value of such fund's investment portfolio or other assets and liabilities.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

Makena Multi-Class Portfolio – The Feeder Funds record their investments in the Master Funds on the basis of NAV. The fair values of the Feeder Funds' investments in the Master Funds have been estimated by the General Partner in the absence of a readily determinable market value for such investments. These fair values are based upon the Feeder Funds' proportionate interests in the partners' capital of the respective Master Funds. The performance of the Feeder Funds is directly affected by the performance of the Master Funds. The net increase or decrease in partners' capital resulting from operations of the Master Funds is allocated pro rata among the Feeder Fund investors in each Master Fund. Consequently, each of the Feeder Funds records its proportionate share of the net increase or decrease in the Master Funds' capital resulting from operations as allocated from the Master Funds. Partners are permitted to withdraw up to 5% of their interest per annum as their "Annual Distribution," subject to notification on or before May 1 of the year in which the Annual Distribution is to be withdrawn. In addition to the Annual Distribution, partners are entitled to withdraw all or any of their partnership interest greater than 5%, subject to a one-year notice requirement. However, this withdrawal may be limited by the partner's indirect prorated portion of the Master Funds' special investments and the partner's indirect prorated portion of the Master Funds' Remaining Obligations to such Special Investments, as defined in the Agreements, referred to as "Reserves."

KJT Family LLC – The University received a donation from the Trott family of 100 Class B units of KJT Family LLC. The University records the gift at the fair market value as determined by an independent valuation performed at the time of the donation. Kara Trott is a member of the University's Board of Trustees. During the year ended June 30, 2021, the interest in the business was converted into a cash gift. The asset balance as of June 30, 2021 is zero.

Interests in trusts – Interests in trusts include contributions receivable from lead and remainder trusts and are recorded at the present value of the projected net future cash flows to be received, based on current market interest rates. This type of asset has no readily determinable exit price due to legal constraints and, therefore, is considered to be a Level 3 input.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	2021				
	Beginning Balance	Additions/Purchases	Distributions	Realized and Unrealized Losses	Ending Balance
Other	\$ 1,188,097	\$ -	\$ (1,177,000)	\$ -	\$ 11,097
Interests in trusts	2,640,512	-	-	609,622	3,250,134
	2020				
	Beginning Balance	Additions/Purchases	Distributions	Realized and Unrealized Losses	Ending Balance
Other	\$ 11,097	\$ 1,177,000	\$ -	\$ -	\$ 1,188,097
Interests in trusts	2,953,791	-	(148,863)	(164,416)	2,640,512

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

- K. Investments – Investments are carried at fair market value. Investments in equity securities with readily determinable fair values and certain debt securities are recorded at fair value based on quoted market prices. Alternative investments are recorded based on estimated fair values. Methods for determining estimated fair values include discounted cash flows and estimates provided by fund trustees and general partners. The estimated fair value of certain of these investments is based on valuations provided by external investment managers, adjusted for cash receipts, disbursements and significant known changes in market values of publicly held securities held in the portfolio. The University considers the carrying values of these investments to be a reasonable estimate of fair value. Because these investments are not readily marketable and may be subject to withdrawal restrictions, their estimated value is subject to uncertainty and, therefore, may differ from the values that would have been used had a ready market for such investments existed.

Alternative investments include certain interests in international equities, hedge/absolute return, venture capital funds and real estate investment trusts. The University invests in limited partnerships and commingled vehicles, some of which employ traditional strategies (long only) in readily marketable securities (liquid equities or bonds traded on exchanges) and others of which employ less traditional strategies (long and short equity or fixed income and other hedging strategies) that may include the use of options, futures and other derivative instruments.

A portion of the University's investments is measured at NAV as a practical expedient for fair value. These investments include hedge funds and public equities structured within limited partnerships and/or off-shore funds which are based on valuations provided by external investment managers and the managers' third party administrators. The fair values of the investments have been estimated using the NAV of the University's ownership in the capital. The redemption terms vary based on the investment funds. These entities may also have the ability to impose gates, lockups and other restrictions on an investor's ability to readily redeem out of their investment interest in the funds.

Realized gains and losses represent the difference between the proceeds on sale of investments and their cost when acquired or fair value when donated. Investment return includes interest, dividends and both realized and unrealized gains and losses. In those cases where a donor has placed restrictions on the use of net appreciation, such appreciation is reported as part of net assets with donor restrictions, with either time/purpose restrictions or in perpetuity.

The University's endowment funds consist of assets which are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains accumulated by these funds may be used to support operations unless restricted by time/purpose or in perpetuity by the donor or by law.

The University holds investment securities which are exposed to various risks including 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 University's investment account balances and the amounts reported in the consolidated statements of financial position.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

- L. Land, Buildings, Equipment and Depreciation – The carrying value of land, buildings, equipment and other properties is stated at cost or appraised value at date of receipt as gifts. The University capitalizes additions and major replacements of plant and equipment while repairs are expensed. The University provides for depreciation on the straight-line method over the estimated useful lives summarized in the following table:

Ground and land improvements	15 years
Buildings and building improvements	10-100 years
Equipment	5-10 years
Vehicles and office equipment	3-10 years

- M. Bond Issue Costs – Bond premiums are amortized using the effective interest method over the life of the bonds. Unamortized bond premiums are a direct increase to bonds payable in the consolidated statements of financial position. Bond issuance costs are amortized using the effective interest method over the life of the bonds. Unamortized bond issuance costs are a direct reduction from bonds payable in the consolidated statements of financial position.
- N. Annuities and Unitrusts – The University's split interest agreements with donors consist of irrevocable charitable lead and remainder trusts, charitable gift annuities and life income contracts for which the University is either the remainder beneficiary or one of several remainder beneficiaries. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for split-interest agreements are recognized at the dates the agreements are established. Revenues are recorded at fair value, net of the present value of the estimated future payments to be made to the beneficiaries. The present value of payments to beneficiaries under split interest agreements has been calculated using actuarial estimates of life expectancies and discount rates ranging from 0.8% to 8.2% at June 30, 2021 and 2020.

Assets neither in the possession nor under the control of the University and to which the University has no ultimate claim on the corpus have not been included in the consolidated financial statements. However, pursuant to donors' wishes, income derived from these resources has been included as additions to net assets with donor restrictions in the consolidated statements of activities, as it is received.

- O. Deferred Income and Deposits – Deferred income and deposits represent cash received from students for the following fiscal year but not earned, unearned grant revenue and other deposits.
- P. Revenue and Revenue Recognition – Income from tuition and fees is recognized at the beginning and throughout the semester. In addition, room and board is required of all students except those that qualify and apply for commuter status. Room and board is also recognized at the beginning and throughout the semester. Payments by students are generally required prior to the beginning of the school year, or monthly throughout the semester if they applied for a payment plan. All amounts received prior to the commencement of the school year, including enrollment deposits, are deferred to the applicable period. All prior year deferred revenue was recognized as current year revenue. Financial aid discounts provided to students are recorded as a reduction from the posted tuition and fees at the time revenue is recognized.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

P. Revenue and Revenue Recognition (Continued)

The University recognizes contributions as revenue in the period in which the pledge (promise to give) is received. The University reports gifts of land, buildings and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. The University reports expirations of donor restrictions when acquired long-lived assets are placed in service.

The University considers all contributions to be without donor restrictions unless specifically restricted by the donor. Donated items are reflected as contributions at their estimated fair market value at the time of donation. Contributions receivable beyond one year are recorded at net present value using a rate of 3% resulting in a discount of approximately \$1,530,000.

- Q. Expenses by Both Nature and Function** – Expenses are presented in the consolidated statements of functional expenses in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Certain categories of expenses are attributable to one or more functions of the University. These expenses include depreciation and amortization, interest, information technology and facilities operation and maintenance. Depreciation expense is allocated based on square footage occupancy. Interest expense is allocated to the functional categories that have benefited from the proceeds of the related debt. Facilities operation and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. Costs of other categories were allocated on the bases of estimates of time and effort.
- R. Self Insurance** – The University has elected to act as a self-insurer for certain costs related to employee health benefit programs. Costs resulting from non-insured losses are charged to expense when incurred, and the University has an established reserve for claims incurred but not yet paid. The University has insurance coverage which limits its exposure for individual claims and an aggregate stop loss exposure.
- S. Art Collections** – The University maintains a collection of artwork in its Ross Art Museum. Due to the difficulty in establishing a value for collection pieces donated to the University, these assets are not recorded in the consolidated financial statements. Collection purchases are expensed as purchased. The University provides a clean, secure and stable environment for its permanent collections. The artwork is given reasonable care towards its preservation.
- T. Federal Income Tax** – The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The University recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the University, the continued tax-exempt status of bonds issued by the University and various positions related to potential sources of unrelated taxable income. The University believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

- U. Conditional Asset Retirement Obligations – The University is required to recognize a liability for a conditional asset retirement obligation. Management has considered its legal obligations to perform an asset retirement analysis on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the University may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2021 and 2020.
- V. Reclassifications – Certain reclassifications of 2020 amounts have been made to conform to the 2021 presentation.

Note 2. Liquidity and Availability

The following table reflects the University's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditures within one year.

	<u>2021</u>	<u>2020</u>
Financial assets		
Cash and cash equivalents	\$ 5,402,055	\$ 9,622,824
Accounts receivable	2,393,677	2,566,173
Pledges receivable, net	<u>16,102,148</u>	<u>16,733,329</u>
Financial assets, at year-end	23,897,880	28,922,326
Less pledges receivable restricted by donor	(16,102,148)	(16,733,329)
Plus endowment spending rate appropriation	<u>15,623,843</u>	<u>18,020,386</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,419,575</u>	<u>\$ 30,209,383</u>

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has an unsecured line of credit of \$10,000,000, which it could draw upon.

Additionally, the University has a board-designated endowment of \$9,444,178 as of June 30, 2021. Although, the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available, if necessary.

Note 3. Investments

The University pools certain assets of permanent endowment, quasi-endowment, annuity and life income funds on a market value basis. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the beginning of the calendar quarter within which the transaction takes place, except for assets which are separately invested due to specific donor restrictions.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments (Continued)

During the year ended June 30, 2012, the University transitioned a significant portion of its investments to the OWU Fund and Makena. The University continues to set investment policy, allows asset allocation ranges and monitors performance. The University has delegated the authority for investment decisions of the OWU Fund to Cambridge and Associates which includes asset allocation and manager selection. In addition, the University has made an investment in Makena, a multi-asset class manager with a 2-year lock up.

The composition of investments is set forth in the following table:

	June 30	
	<u>2021</u>	<u>2020</u>
Fixed income	\$ 2,694,860	\$ 2,504,401
Other	664,333	1,835,929
U.S. Government securities	94,380	94,377
Common stocks	17,792,195	15,105,199
Depository receipts	1,066,727	796,793
Derivative investment warrant	4,640	-
Exchange-traded funds		
Global equity	25,741,888	26,514,951
Real assets	11,296,172	9,738,457
U.S. equity	28,863,969	24,044,641
Fixed income	4,185,210	4,413,843
Mutual funds		
Global equity	18,229,268	13,209,660
U.S. equity	6,332,582	4,511,742
Fixed income	14,940,198	11,379,920
Commingled funds		
Global equity	20,490,679	17,153,703
Real assets	4,670,564	3,019,566
U.S. equity	3,989,395	3,378,185
Hedge fund class		
Global equity	14,812,085	9,360,051
Absolute return/credit	-	2,463
U.S. equity	4,212,395	3,531,263
Private equity fund class		
Global venture capital/private	19,820,174	515,084
Hybrid fund of funds	240,397	12,781,547
Private equity fund class	990,885	769,850
Real assets	3,249,291	2,775,951
U.S. private equity	580,612	574,703
U.S. venture capital	6,033,865	3,684,972
Multi-asset class	100,963,818	68,262,948
Money market mutual funds	2,168,573	1,263,169
Cash and cash equivalents	1,498,917	24,022,736
Total investments	<u>\$315,628,072</u>	<u>\$265,246,104</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments (Continued)

At June 30, 2021, the University has committed to invest additional funds in limited partnership investments in the amount of approximately \$15,603,000, at the direction of the general partners. Investment expenses were \$1,522,000 and \$1,275,000 for the years ended June 30, 2021 and 2020, respectively, and are included in investment income.

Gains on investments for nonoperating activities for the year ended June 30, 2021 of \$2,387,703 is reported for the investment gains used to cover the severance payments.

The composition of investment return is as follows:

	Years Ended June 30	
	<u>2021</u>	<u>2020</u>
Investment income (interest and dividends)	\$ 1,307,937	\$ 202,725
Realized and unrealized gains (losses) on investments	<u>82,724,291</u>	<u>(595,288)</u>
Total investment return	84,032,228	(392,563)
Investment return designated for current operations	<u>(13,236,140)</u>	<u>(15,225,738)</u>
Non-operating investment return	<u>\$ 70,796,088</u>	<u>\$ (15,618,301)</u>

Note 4. Pledges Receivable

As of June 30, 2021 and 2020, the University had received unconditional promises totaling \$18,082,724 and \$19,035,123, respectively, on which management has recorded an allowance for uncollectible promises of \$449,998 and \$429,421, respectively. The amounts are recorded at the present value of future cash flows based on a discount rate of 3% for June 30, 2021 and 2020. The discount is \$1,530,578 and \$1,872,373 at June 30, 2021 and 2020, respectively. The pledges receivable are due as follows:

	June 30, 2021			
	With Donor Restrictions Plant	With Donor Restrictions Other	With Donor Restrictions Corpus	Total
Less than one year	\$ 208,459	\$ 276,444	\$ 538,750	\$ 1,023,653
One to five years	11,280,411	717,403	2,900,091	14,897,905
More than five years	<u>102,955</u>	<u>-</u>	<u>77,635</u>	<u>180,590</u>
	<u>\$ 11,591,825</u>	<u>\$ 993,847</u>	<u>\$ 3,516,476</u>	<u>\$ 16,102,148</u>

	June 30, 2020			
	With Donor Restrictions Plant	With Donor Restrictions Other	With Donor Restrictions Corpus	Total
Less than one year	\$ 232,976	\$ 234,230	\$ 424,655	\$ 891,861
One to five years	11,923,376	665,268	2,928,245	15,516,889
More than five years	<u>151,195</u>	<u>-</u>	<u>173,384</u>	<u>324,579</u>
	<u>\$ 12,307,547</u>	<u>\$ 899,498</u>	<u>\$ 3,526,284</u>	<u>\$ 16,733,329</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 4. Pledges Receivable (Continued)

At June 30, 2021 and 2020, the University had also been notified of revocable pledges, bequests and other indications of intentions to give. These potential contributions have not been substantiated by written promises to the University. The University's policy is not to record these intentions to give as revenue until they are reduced to writing or are collected.

Note 5. Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2021 and 2020 consist of the following:

	June 30	
	<u>2021</u>	<u>2020</u>
Grounds and land improvements	\$ 13,441,331	\$ 13,441,331
Buildings and building improvements	193,515,452	174,589,978
Equipment	24,906,564	24,010,809
Vehicles and office equipment	9,485,872	9,472,520
Less accumulated depreciation	(96,611,285)	(90,190,678)
	<u>\$144,737,934</u>	<u>\$131,323,960</u>

Depreciation expense totaled \$6,420,606 and \$5,853,190 for the years ended June 30, 2021 and 2020, respectively.

Note 6. Pension Plans and Other Postretirement Benefit Plans

The University maintains a defined contribution pension plan, administered by TIAA-CREF, which covers the majority of its faculty and administrative personnel. All costs of this plan, \$1,857,252 and \$1,905,122 for the years ended June 30, 2021 and 2020, respectively, are funded and reflected as expenditures in the year earned, and no past service costs exist.

The University also maintains a non-contributory defined benefit pension plan, which covered the majority of the University's hourly and certain administrative personnel, through June 30, 1998. This defined benefit plan provides pension benefits that are based upon the employee's length of service with the University. The University's funding policy is to contribute annually the minimum amount required by applicable regulations.

Effective July 1, 1998, the University froze all benefits in the defined benefit pension plan and transferred coverage for all employees to the defined contribution pension plan.

In addition to the University's defined contribution and defined benefit retirement plans, the University has a defined benefit postretirement plan. The plan provides certain health care and life insurance benefits for retired employees who began employment with the University prior to September 1, 1999. The health care plan is contributory whereby the University contributes a monthly stipend of \$100 for all covered participants.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Pension Plans and Other Postretirement Benefit Plans (Continued)

The various components of these plans, which are included in the University's consolidated financial statements, are as follows:

	Pension Plan		Postretirement Benefit Plan	
	June 30		June 30	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net Periodic Benefit Cost				
Service cost	\$ -	\$ -	\$ 30,041	\$ 41,023
Interest cost	59,645	82,588	153,436	224,717
Return on plan assets	(108,800)	(121,412)	-	-
Prior service cost	-	-	(2,470,968)	(2,655,828)
Amortization of loss	<u>118,958</u>	<u>56,241</u>	<u>442,149</u>	<u>525,731</u>
Net periodic benefit cost	<u>\$ 69,803</u>	<u>\$ 17,417</u>	<u>\$ (1,845,342)</u>	<u>\$ (1,864,357)</u>

The pension plan has \$181,022 of unrecognized actuarial loss at June 30, 2021. The estimated amortization of actuarial loss is \$-0- for 2022.

The postretirement benefit plan has amounts unrecognized in net periodic benefit cost for prior service credit of \$-0- and a net actuarial loss of \$1,929,292 at June 30, 2021. The estimated amortization of prior service cost and actuarial loss is \$-0- and \$378,302, respectively, for 2022.

	Pension Plan		Postretirement Benefit Plan	
	June 30		June 30	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 2,776,072	\$ 2,726,218	\$ 6,987,015	\$ 7,304,063
Service cost	-	-	30,041	41,023
Interest cost	59,645	82,588	153,436	224,717
Actual distributions	(133,745)	(202,958)	-	-
Actuarial (loss) gain	(119,490)	170,224	-	(96,264)
Net contributions (employer)	(181,074)	-	107,531	(486,524)
Change in plan provisions	-	-	(696,049)	-
Benefit obligation at end of year	<u>2,401,408</u>	<u>2,776,072</u>	<u>6,581,974</u>	<u>6,987,015</u>
Plan assets	<u>2,015,384</u>	<u>1,873,269</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (386,024)</u>	<u>\$ (902,803)</u>	<u>\$ (6,581,974)</u>	<u>\$ (6,987,015)</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Pension Plans and Other Postretirement Benefit Plans (Continued)

	Pension Plan		Postretirement Benefit Plan	
	June 30		June 30	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Actuarial Assumptions				
Weighted average discount rate:				
Expense	2.25%	3.25%	2.30%	3.21%
Benefit obligation (at year end)	2.45%	2.25%	2.36%	2.30%
Expected rate of return on assets	6.00%	6.00%	N/A	N/A
Medical trend:				
For next year (pre 65/post 65)	N/A	N/A	7.50%	7.50%
Ultimate trend rate	N/A	N/A	4.50%	4.50%
Year reached	N/A	N/A	2027	2026

Under the postretirement benefit plan, if the medical trend rates were to increase by 1% for each year, the benefit obligation as of June 30, 2021 would also increase by \$89,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2021 would increase by \$3,000. If the medical trend rates were to decrease by 1% for each year, the benefit obligation as of June 30, 2021 would also decrease by \$85,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2021 would decrease by \$3,000.

Pension Plan Assets

The University's weighted average asset allocations at the measurement date and the target asset allocations by category are as follows:

Asset Category	2021	2020	Target
	<u>Actual</u>	<u>Actual</u>	<u>Target</u>
Equity securities	61.0 %	51.6 %	50-70 %
Debt securities	38.4	45.4	30-50
Cash equivalents	<u>0.6</u>	<u>3.0</u>	<u>0-15</u>
Total	<u>100.0</u> %	<u>100.0</u> %	<u>100.0</u> %

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Pension Plans and Other Postretirement Benefit Plans (Continued)

Pension Plan Assets (Continued)

The pension plan's investment policy reflects the long-term nature of the plan's funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a long-term goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. All equity investments are made within the guidelines of quality, marketability and diversification mandated by the Employee Retirement Income Security Act and other relevant statutes. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for that portfolio. Assets invested in fixed income securities and pooled fixed income portfolios are managed actively to pursue opportunities presented by changes in interest rates, credit ratings or maturity premiums. The expected long-term rate of return on pension plan assets was developed by the University, in conjunction with the plan actuary, and is based on the past return of the plan investments.

Pension Plan Contributions

The expected contributions to the pension plan for the year ended June 30, 2022 are \$27,511.

Estimated Future Benefit Payments

Future benefit payments, which reflect expected future service, as appropriate, during the next five fiscal years, and in the aggregate for the five fiscal years thereafter, are:

<u>Fiscal Year Ended June 30</u>	<u>Pension Benefits</u>	<u>Other Benefits</u>
2022	\$ 138,353	\$ 615,000
2023	138,939	586,000
2024	140,472	631,000
2025	143,263	594,000
2026	149,205	555,000
2027 - 2031	733,437	2,029,000

The University's pension plan assets at June 30, 2021 and 2020 are all Level 1 assets. The fair value, by asset category, is as follows:

	<u>2021</u>	<u>2020</u>
Equity securities	\$1,229,104	\$ 966,438
Debt securities	773,649	851,471
Cash equivalents	<u>12,631</u>	<u>55,360</u>
	<u>\$2,015,384</u>	<u>\$1,873,269</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Pension Plans and Other Postretirement Benefit Plans (Continued)

In addition to the retirement plans described above, the University maintains an unfunded defined benefit pension plan for former employees that remain eligible for benefits earned prior to 1952 (the termination date of the plan). The future unfunded costs related to this plan are expected to approximate \$26,000 next year, with declining unfunded costs thereafter.

Note 7. Bonds and Notes Payable

Under an unsecured line of credit arrangement with a bank, the University may borrow up to \$10,000,000 at the London Interbank Offered Rate (LIBOR) interest rate (.15% at June 30, 2021) plus 1.50% to fund cyclical working capital requirements. The line of credit arrangement expires on demand of the bank. As of June 30, 2021 and 2020, there was \$-0- outstanding on this line of credit. This line of credit agreement requires the maintenance of certain financial ratios and restricts the University's ability to pledge or sell certain assets and consolidate with or acquire assets of other entities. Interest expense for the line of credit for the years ended June 30, 2021 and 2020 was \$-0- and \$8,664, respectively.

Long-term bonds and notes payable at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Fixed-rate bonds issued in August 2019, maturing through 2049 (2019 Bonds)	\$47,605,000	\$48,370,000
Fixed-rate draw notes issued in April 2019, maturing through 2029 (2019 Notes)	<u>3,132,649</u>	<u>3,465,442</u>
	50,737,649	51,835,442
Total unamortized premium	4,525,967	4,919,588
Total unamortized bond issuance costs	<u>(398,649)</u>	<u>(422,586)</u>
Total bonds payable	<u>\$54,864,967</u>	<u>\$56,332,444</u>

The bond premium and issuance costs are being amortized over the life of the bonds. Bond issuance cost amortization for the years ended June 30, 2021 and 2020 was \$23,937 and \$23,207, respectively, and bond premium amortization was \$393,621 and \$350,602, respectively. Accumulated amortization for bond issuance costs for the years ended June 30, 2021 and 2020 was \$45,026 and \$21,089, respectively, and accumulated amortization for the bond premium was \$744,223 and \$350,602, respectively.

In April 2019, the University entered into a principal and interest promissory note of \$3,600,000 at a 4.016% fixed interest rate. The funds were issued in the form of a draw term note. The loan is interest only through January 2020 with fixed monthly payments of \$38,980, including interest, for 111 months thereafter. The loan balance outstanding was \$3,132,649 and \$3,465,442 as of June 30, 2021 and 2020, respectively.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Bonds and Notes Payable (Continued)

On August 14, 2019, the University, in conjunction with the Commission, issued \$48,370,000 of State of Ohio Higher Educational Facility Revenue Bonds (the 2019 Bonds) at fixed rates ranging from 3.125% to 5.00% with a 30-year maturity. The interest is paid semi-annually on April 1 and October 1 while the principal is paid annually on October 1. The bonds were issued through the Commission. They were placed as a private placement with PNC Capital Markets LLC and Stifel, Nicolaus & Company. The funds were issued in the form of a draw term. The bond proceeds retired previous bond issues. The remaining proceeds were utilized for the renovation of various residence halls on campus and new residence housing apartments.

The 2019 Bonds are subject to the 2019 bond base lease terms (the Lease) with the Commission in conjunction with the 2019 Project. The University is required to make rental payments under the Lease in amounts sufficient to pay the principal and interest on the 2019 Bonds. The 2019 Bonds are special obligations of the State of Ohio and the debt service on the 2019 Bonds is payable solely from the revenues to be derived by the Commission from its ownership of the 2019 Project. The 2019 Bonds are collateralized by a security interest in the 2019 Project. The University has agreed to purchase the 2019 Project from the Commission after all of the debt service on the 2019 Bonds has been paid.

Principal payments for all notes and bonds, for the years ending June 30, are as follows:

2022	\$ 1,146,627
2023	1,206,007
2024	1,260,739
2025	1,321,572
2026	1,387,817
Thereafter	<u>44,414,887</u>
	<u>\$50,737,649</u>

Interest expense for all bonds and notes payable for the years ended June 30, 2021 and 2020 was \$992,155 and \$853,946, respectively.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions of the University and subsidiaries, and the nature of any restrictions, consisted of the following:

	June 30	
	<u>2021</u>	<u>2020</u>
Scholarships, prizes and awards - corpus	\$ 97,440,419	\$ 95,545,348
Scholarships, prizes and awards - earnings	57,631,894	23,400,241
Faculty support and academic programs - corpus	41,495,371	40,507,346
Faculty support and academic programs - earnings	22,752,661	8,714,326
General university operations - corpus	50,840,450	50,549,023
General university operations - earnings	24,736,266	7,212,423
Library acquisitions - corpus	1,571,501	1,571,451
Library acquisitions - earnings	2,092,403	1,293,828
Annuity, pooled income and unitrust funds - corpus	4,421,040	4,432,507
Annuity, pooled income and unitrust funds - earnings	(3,682,398)	(3,812,590)
Interest in trusts - corpus	2,254,187	1,800,527
Interest in trusts - earnings	870,426	728,190
Endowment income designated for restricted purposes	333,874	5,467,252
Unexpended gifts and grants	10,066,883	8,404,289
Student loan funds - corpus	2,560,084	2,462,482
Pledges receivable - corpus	3,516,477	3,526,284
Pledges receivable	12,585,672	13,207,045
Capital projects	17,292,981	10,285,642
Other purposes - corpus	8,283,529	7,397,541
Other purposes	1,766,218	(309,997)
	<u>\$358,829,938</u>	<u>\$282,383,158</u>

Net assets released from restrictions relate to the following:

	June 30	
	<u>2021</u>	<u>2020</u>
Academic support, including library	\$ 1,512,082	\$ 550,500
Financial aid from outside sources	6,529,880	6,330,842
Plant	2,333,117	188,914
Instruction	2,756,903	1,309,449
Management and general	1,609,268	231,390
Student services	3,908,828	625,397
Research	246,012	149,629
General support	3,724,089	5,894,944
	<u>\$22,620,179</u>	<u>\$15,281,065</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Endowment Funds

The Board of Trustees of the University has approved an investment policy detailing the long-term goals, asset allocation, measurable objectives, on-going communication, review and oversight. The basic philosophy of the investment policy is that administration and management of the endowment are to be implemented through diversified investment options designed to recognize income needs for ongoing operations, as well as committed spending and capital-growth needs to meet expansion goals and costs increased by future inflation.

A portion of net assets with donor restrictions is restricted as to use in perpetuity. The University records these permanent endowment gifts at historic dollar value. Distributions from endowment funds are spent in compliance with the donor's restrictions applicable to the funds being distributed. The current spending rule provides an annual cash flow to the operating budget equal to the fixed amount of spending calculated at June 30, 1998 increased by the CPI-U plus 4% of new endowment gifts.

Distributions for operations during the years ended June 30, 2021 and 2020 were \$13,236,140 and \$15,023,013, respectively. The University's spending policy authorized \$13,236,140 and \$12,679,079 to be distributed during the years ended June 30, 2021 and 2020, respectively. For the year ended June 30, 2020, the Board passed a resolution for the distribution to include a supplemental endowment draw to support Board-approved investments in strategic initiatives of \$2,343,934.

From time to time the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a perpetual fund balance. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of these new permanent endowment contributions or as a result of continued expenditure for programs that the Board deems prudent. The fair value of assets associated with certain individual donor-restricted endowment funds was below the carrying value by \$5,389,725 and \$8,658,530 at June 30, 2021 and 2020, respectively.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Endowment Funds (Continued)

The endowment pool, which includes true endowment and quasi-endowment, was as follows as of June 30, 2021 and 2020:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 7,383,571	\$228,876,171	\$236,259,742
Investment return:			
Investment income	39,980	1,266,429	1,306,409
Net appreciation (realized and unrealized)	<u>2,511,976</u>	<u>79,429,609</u>	<u>81,941,585</u>
Total investment return	2,551,956	80,696,038	83,247,994
Cash contributions and transfers	-	4,048,563	4,048,563
Appropriation of endowment assets for expenditure	<u>(491,349)</u>	<u>(15,132,494)</u>	<u>(15,623,843)</u>
Endowment assets, end of year	<u>\$ 9,444,178</u>	<u>\$298,488,278</u>	<u>\$307,932,456</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 7,882,818	\$235,198,526	\$243,081,344
Investment return:			
Investment income	48,773	1,496,026	1,544,799
Net depreciation (realized and unrealized)	<u>(62,211)</u>	<u>(1,799,793)</u>	<u>(1,862,004)</u>
Total investment return	(13,438)	(303,767)	(317,205)
Cash contributions and transfers	-	8,518,616	8,518,616
Appropriation of endowment assets for expenditure	<u>(485,809)</u>	<u>(14,537,204)</u>	<u>(15,023,013)</u>
Endowment assets, end of year	<u>\$ 7,383,571</u>	<u>\$228,876,171</u>	<u>\$236,259,742</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. Commitments and Contingencies

At June 30, 2021, the University has outstanding commitments on various construction projects totaling approximately \$13,711,000 most of which is related to building renovations and new construction.

The University is involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the University's operations or financial position.

The University provided a one-time Voluntary Separation or Retirement Program (VSRP) to long-term faculty as part of an overall restructuring plan to position the University to better meet its mission. Faculty members were given the opportunity to elect to opt in to the VSRP as long as that election was made by June 15, 2020. They were given the option to retire or separate at either of two future dates. The amount of the severance and the dates of the two equal severance payments were determined by each faculty member's base salary, years of service, and the date selected for their retirement or separation. Administrative restructuring resulted in a reduction in force of staff positions. The amount of the separation payout for affected staff was based on each staff member's base salary and years of service. The total expense incurred for faculty and staff separations was \$4,336,319 for the year ended June 30, 2020.

After June 30, 2020, an additional eight faculty members signed separation agreements that contained severance compensation. The severance for these individuals expensed in year ended June 30, 2021 was \$922,414.

The University considers the restructuring a one-time event not associated with the normal operations of the University. Therefore, it is classified as a non-operating expense in the consolidated statement of activities.

Note 11. Strand Theatre

The University is the founding member and Grantor of Strand Theatre and Cultural Arts Association, Inc. located at 22-32 East Winter Street, Delaware, Ohio 43015. The purpose for which the Corporation is formed is exclusively for charitable and educational purposes, including a place for movies, plays, musical performances, lectures, seminar, shows or other cultural performances and educational activities.

If the property shall cease to be used by the Grantee or another not-for-profit entity for the Strand Movie Theatre and other cultural arts uses, title to the real property shall revert to the University, Grantor. All of the Grantee's rights of redemption shall automatically be assigned by Grantee to the University, Grantor.

If the Grantee shall default on its first mortgage and security agreement and a foreclosure action shall be instituted by the mortgagee and not dismissed, the real property, subject to existing first mortgage and security agreement, shall revert to the University, Grantor. All of the Grantee's rights of redemption shall automatically be assigned by Grantee to the University, Grantor.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. COVID-19 Global Pandemic

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 (COVID-19) a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the impact continues to evolve as of the date of this report.

In the fiscal year ended June 30, 2021, uncertainty surrounding the pandemic resulted in lower student enrollment and the number of students in residence, which negatively affected tuition, room and board revenue. In addition, unrestricted donations and grants were lower in the year ended June 30, 2021, which further depressed total revenue. In response, the University made a number of budget and staffing adjustments for the year ended June 30, 2021 designed to ensure the University could successfully deliver academic programs without disruption. The University incurred significant expenses related to the prevention and management of COVID-19 during the year ended June 30, 2021. These expenses included, but are not limited to: coronavirus testing of students, HVAC system upgrades and the purchase of air cleaning units, installation of barriers and signage, costs to isolate students who tested positive for COVID-19 and enhanced cleaning and disinfecting throughout campus. Many of these costs were reimbursed through federal funding through the Higher Education Emergency Relief Fund (HEERF), or through state of Ohio funds. While the coronavirus pandemic affected University activities, financial results and cash flows during the year ended June 30, 2021, the full extent of the pandemic's impact is unknown at this time.