

**OHIO WESLEYAN UNIVERSITY
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2019 and 2018

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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended and the consolidated statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018 financial statements of OWU Fund, LP, described in Note 1.A. OWU Fund, LP represents 40% of consolidated total assets as of June 30, 2019 and 2018 and 63% and 64% of the consolidated net investment income for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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
January 16, 2020

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 1,694,792	\$ 7,245,356
Accounts receivable:		
Students, net	1,179,644	1,154,831
Grants	578,943	353,572
Other	<u>741,004</u>	<u>1,154,017</u>
Total accounts receivable	2,499,591	2,662,420
Pledges receivable, net	18,817,500	7,222,719
Student loans receivable, net	4,007,746	4,293,138
Inventories and prepaid expenses	1,704,711	1,559,799
Investments	252,819,005	247,834,206
Interests in trusts	2,953,791	3,013,525
Land, buildings and equipment, net	132,404,408	132,588,819
Construction in progress	2,732,247	488,052
	<hr/>	<hr/>
Total assets	<u>\$419,633,791</u>	<u>\$406,908,034</u>

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

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,170,899	\$ 2,895,014
Accrued compensation	5,613,104	5,061,606
Deferred income and deposits	4,514,431	3,282,171
Other accrued liabilities	1,966,733	1,770,194
Deferred tax liability	-	134,000
Bonds and notes payable, net	21,215,208	22,491,986
Postretirement benefits other than pensions	7,304,063	6,603,352
Accrued pension liability	703,129	523,566
Annuities and unitrusts payable	3,046,536	3,722,887
Advances from federal government for student loans	4,066,756	4,009,545
Total liabilities	<u>50,600,859</u>	<u>50,494,321</u>
Net assets:		
Without donor restrictions	84,603,951	81,984,398
With donor restrictions	<u>284,428,981</u>	<u>268,391,075</u>
Total net assets - University	369,032,932	350,375,473
Noncontrolling interest	-	6,038,240
Total net assets	<u>369,032,932</u>	<u>356,413,713</u>
Total liabilities and net assets	<u>\$419,633,791</u>	<u>\$406,908,034</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue, gains and other support:			
Tuition and fees	\$ 69,937,670		\$ 69,937,670
Less: University funded financial aid	(39,202,490)		(39,202,490)
Financial aid from outside sources	(7,096,858)		(7,096,858)
Net tuition and fees	23,638,322		23,638,322
Gifts, pledges and bequests	8,914,729	\$ 23,036,432	31,951,161
Other investment income	188,287	2,581	190,868
Investment return designated for current operations	409,048	11,653,670	12,062,718
Grants	1,145,990	740,240	1,886,230
Other income	3,154,473	258,358	3,412,831
Sales and services of auxiliary enterprises	17,292,908		17,292,908
Net assets released from restrictions	17,146,566	(17,146,566)	-
Total operating revenue, gains and other support	71,890,323	18,544,715	90,435,038
Operating expenses:			
Educational:			
Instruction	27,167,971		27,167,971
Student services	14,193,355		14,193,355
Academic support, including library	7,023,257		7,023,257
Auxiliary enterprises	13,191,098		13,191,098
Public services	333,815		333,815
Research	273,667		273,667
	62,183,163		62,183,163
Management and general	8,192,152		8,192,152
Fundraising	4,029,513		4,029,513
Total operating expenses	74,404,828		74,404,828
Net (decrease) increase in net assets from operations	(2,514,505)	18,544,715	16,030,210
Nonoperating revenues and expenses:			
Losses on investments in excess of amount designated for current operations	(133,514)	(2,447,076)	(2,580,590)
Postretirement obligation adjustment	(700,711)		(700,711)
Pension-related charges other than net periodic pension cost	(203,957)		(203,957)
Deferred tax benefit	134,000		134,000
Actuarial adjustment of split-interest agreements		(59,733)	(59,733)
Change in net assets	(3,418,687)	16,037,906	12,619,219
Net assets, beginning of year	88,022,638	268,391,075	356,413,713
Net assets, end of year	\$ 84,603,951	\$284,428,981	\$369,032,932

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

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue, gains and other support:			
Tuition and fees	\$ 67,551,012		\$ 67,551,012
Less: University funded financial aid	(37,152,174)		(37,152,174)
Financial aid from outside sources	<u>(6,861,556)</u>		<u>(6,861,556)</u>
Net tuition and fees	23,537,282		23,537,282
Gifts, pledges and bequests	6,500,998	\$ 12,911,739	19,412,737
Other investment income	256,855	970	257,825
Investment return designated for current operations	3,533,949	10,958,342	14,492,291
Grants	1,155,366	802,593	1,957,959
Other income	5,169,696	271,095	5,440,791
Sales and services of auxiliary enterprises	17,323,466		17,323,466
Net assets released from restrictions	<u>14,896,260</u>	<u>(14,896,260)</u>	<u>-</u>
Total operating revenue, gains and other support	72,373,872	10,048,479	82,422,351
Operating expenses:			
Educational:			
Instruction	26,975,573		26,975,573
Student services	13,361,410		13,361,410
Academic support, including library	6,852,173		6,852,173
Auxiliary enterprises	13,376,129		13,376,129
Public services	339,227		339,227
Research	<u>347,658</u>		<u>347,658</u>
	61,252,170		61,252,170
Management and general	8,428,838		8,428,838
Fundraising	<u>4,607,283</u>		<u>4,607,283</u>
Total operating expenses	<u>74,288,291</u>		<u>74,288,291</u>
Net (decrease) increase in net assets from operations	(1,914,419)	10,048,479	8,134,060
Nonoperating revenues and expenses:			
(Losses) gains on investments in excess of amount designated for current operations	(2,833,103)	6,580,476	3,747,373
Postretirement obligation adjustment	1,115,648		1,115,648
Pension-related charges other than net periodic pension cost	238,871		238,871
Deferred tax benefit	92,000		92,000
Actuarial adjustment of split-interest agreements		<u>158,514</u>	<u>158,514</u>
Change in net assets	(3,301,003)	16,787,469	13,486,466
Net assets, beginning of year	91,403,118	251,603,606	343,006,724
Net capital distribution - noncontrolling interest	<u>(79,477)</u>		<u>(79,477)</u>
Net assets, end of year	<u>\$ 88,022,638</u>	<u>\$268,391,075</u>	<u>\$356,413,713</u>

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

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

	<u>Educational</u>	Management and General	<u>Fundraising</u>	<u>Total</u>
OPERATING EXPENSES				
Salaries	\$24,239,264	\$ 3,044,547	\$ 2,160,836	\$29,444,647
Employee benefits	10,203,209	1,828,758	953,252	12,985,219
Operating expenses	16,084,130	1,845,519	806,046	18,735,695
Facilities and maintenance	5,714,134	875,060	63,879	6,653,073
Depreciation and amortization	5,618,789	260,160	45,500	5,924,449
Interest expense	<u>323,637</u>	<u>338,108</u>	<u> </u>	<u>661,745</u>
Total operating expenses	<u>\$62,183,163</u>	<u>\$ 8,192,152</u>	<u>\$ 4,029,513</u>	<u>\$74,404,828</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,619,219	\$ 13,486,466
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,924,449	5,277,553
Amortization of bond issuance costs	17,331	33,520
Gain on disposal of asset	(1,007,850)	(3,650,886)
Realized and unrealized gains on investments	(9,482,128)	(18,229,958)
Contributions, net of pledges, for permanently restricted purposes	(6,208,401)	(8,954,159)
Income restricted for long-term investment	(1,376,673)	(27,049)
Change in deferred tax liability	(134,000)	(92,000)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	162,829	(914,734)
(Increase) decrease in pledges receivable	(11,594,781)	508,861
Decrease in student loans receivable	285,392	187,755
Increase in inventories and prepaid expenses	(144,912)	(547,476)
Decrease (increase) in interests in trusts	59,734	(158,515)
Decrease in accounts payable	(724,115)	(165,527)
Increase in accrued compensation	551,498	1,004,796
Increase (decrease) in deferred income and deposits	1,232,260	(574,091)
Increase (decrease) in other accrued liabilities	196,539	(105,571)
Increase (decrease) in postretirement benefits other than pensions	700,711	(1,115,648)
Increase (decrease) in accrued pension liability	179,563	(262,973)
(Decrease) increase in annuities and unitrusts payable	(676,351)	133,663
Increase in advances from federal government for student loans	57,211	56,838
Net cash used in operating activities	<u>(9,362,475)</u>	<u>(14,109,135)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land, buildings and equipment	1,500,000	4,625,000
Purchases of land, buildings and equipment	(8,476,383)	(5,119,972)
Sales of securities, net	4,497,329	3,966,308
Net cash provided by investing activities	<u>(2,479,054)</u>	<u>3,471,336</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds and notes payable	(2,046,621)	(2,382,352)
Proceeds from notes payable	752,512	-
Capital distributions to noncontrolling investors	-	(79,477)
Contributions, net of pledges, for permanently restricted purposes	6,208,401	8,954,159
Income restricted for long-term investment	1,376,673	27,049
Net cash provided by financing activities	<u>6,290,965</u>	<u>6,519,379</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,550,564)	(4,118,420)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,245,356</u>	<u>11,363,776</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,694,792</u>	<u>\$ 7,245,356</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 661,745</u>	<u>\$ 616,463</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, 2019 and 2018.

O.W.U. Properties, Inc. is a wholly-owned for-profit subsidiary of the University and is consolidated for financial statement purposes with the University. As described in Note 7, the operations of O.W.U. Properties, Inc. ceased during the year ended June 30, 2019.

Stuyvesant Hall Holdings, Inc. was a wholly-owned subsidiary of the University and had a 60.00% ownership interest in Stuyvesant Hall, LLC and a 0.01% ownership interest in Stuyvesant Hall Master Tenant, LLC. These three Stuyvesant Hall entities ceased separate operations during the year ended June 30, 2019 and were combined into the operations of the University.

The three Stuyvesant Hall entities were formed by the University to facilitate the rehabilitation of the Stuyvesant Hall building, a 245-bed historic building located in Delaware, Ohio on the campus of the University. The rehabilitation project was completed in September 2012.

- B. Basis of Consolidation – These consolidated financial statements include the accounts of the University, OWU Fund, LP (OWU Fund), O.W.U. Properties, Inc. (OWU Properties), Stuyvesant Hall Holdings, Inc. (Holdings), Stuyvesant Hall, LLC (Stuyvesant Hall) and Stuyvesant Hall Master Tenant, LLC (Master Tenant). 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.

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)

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.

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 January 16, 2020, 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.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- 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 \$856,182 and \$760,000 at June 30, 2019 and 2018, respectively.
- 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, 2019 and 2018) 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 \$475,000 at June 30, 2019 and 2018. 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.

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)

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 2018 to 2019.

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, 2019 and 2018:

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)

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Fixed income	\$ 4,376,116	\$ 1,500,000	\$ -	\$ 5,876,116
Other	626,293	-	11,097	637,390
U.S. Government securities	94,375	-	-	94,375
Common stocks	13,182,054	-	-	13,182,054
Depository receipts	701,202	-	-	701,202
Exchange-traded funds				
Global equity	32,551,230	-	-	32,551,230
Real assets	5,091,422	-	-	5,091,422
U.S. equity	29,016,369	-	-	29,016,369
Fixed income	4,619,509	-	-	4,619,509
Mutual funds				
Global equity	10,662,962	-	-	10,662,962
Real assets	4,590,286	-	-	4,590,286
U.S. equity	1,615,367	-	-	1,615,367
Fixed income	10,592,546	-	-	10,592,546
Money market mutual funds	2,281,024	-	-	2,281,024
Cash and cash equivalents	10,603,486	-	-	10,603,486
Total investments in the fair value hierarchy	<u>\$130,604,241</u>	<u>\$ 1,500,000</u>	<u>\$ 11,097</u>	132,115,338
Investments measured at NAV ¹				<u>120,703,667</u>
Total investments				<u>\$252,819,005</u>
Interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,953,791</u>	<u>\$ 2,953,791</u>

¹ Restrictions on redemption:

Triennial redemptions, 90 day notice	\$5.0M
Quarterly redemption, 60 day notice	\$3.4M
Monthly redemption, 60 day notice	\$4.8M
Monthly redemptions, 30 day notice	\$9.5M
Makena investment subject to one year notice on eligible amounts	\$70M
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)

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Fixed income	\$ 4,250,050	\$ 2,500,000	\$ -	\$ 6,750,050
Other	623,261	-	11,097	634,358
U.S. Government securities	94,369	-	-	94,369
Common stocks	56,435,125	-	-	56,435,125
Exchange-traded funds				
Global equity	23,394,638	-	-	23,394,638
Real assets	3,637,215	-	-	3,637,215
U.S. equity	9,870,485	-	-	9,870,485
Fixed income	4,202,967	-	-	4,202,967
Mutual funds				
Global equity	10,960,374	-	-	10,960,374
Real assets	6,365,154	-	-	6,365,154
Fixed income	12,462,383	-	-	12,462,383
Money market mutual funds	469,726	-	-	469,726
Cash and cash equivalents	2,620,410	-	-	2,620,410
Total investments in the fair value hierarchy	<u>\$135,386,157</u>	<u>\$ 2,500,000</u>	<u>\$ 11,097</u>	137,897,254
Investments measured at NAV ²				<u>109,936,952</u>
Total investments				<u>\$247,834,206</u>
Interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,013,525</u>	<u>\$ 3,013,525</u>

² Restrictions on redemption:

Triennial redemptions, 90 day notice \$5.3M

Monthly redemptions, 30 day notice \$8.8M

Makena investment subject to one year notice on eligible amounts \$70M

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). In addition, the University has a percentage of its fixed income investments in alternative investments that are valued at Level 2 and Level 3. Level 2 alternative investment inputs include quoted prices for similar assets in active markets and inputs that are derived principally from or corroborated by observable market data. 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."

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:

	2019				
	Beginning Balance	Additions/ Purchases	Distributions	Realized and Unrealized Losses	Ending Balance
Other	\$ 11,097	\$ -	\$ -	\$ -	\$ 11,097
Interests in trusts	3,013,525	-	(7,005)	(52,730)	2,953,791

	2018				
	Beginning Balance	Additions/ Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Other	\$ 11,097	\$ -	\$ -	\$ -	\$ 11,097
Interests in trusts	2,855,010	-	-	158,515	3,013,525

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:

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 issue costs are amortized on a straight-line basis 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 1.2% to 8.2% at June 30, 2019 and 2018.

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. Expenses by both Nature and Function – Expenses are presented in the consolidated statement 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.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- Q. 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.
- R. 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.
- S. 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.

Stuyvesant Hall and Master Tenant were organized as limited liability companies and were taxed as partnerships for federal income tax purposes. Accordingly, all profits and losses of the companies were recognized by each member on their respective tax returns. Holdings was organized as a C Corporation pursuant to the provisions of the Internal Revenue Code.

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting and operating loss and tax credit carry forwards. The primary components of temporary differences which give rise to the net deferred tax liability relate to depreciation and the timing of recognition of certain income items. A benefit for deferred federal income taxes of \$134,000 and \$92,000 was necessary for the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, the University's income tax years from 2015 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

- T. 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, 2019 and 2018.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- U. Change in Accounting Principle – On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The University adopted the provisions of this new standard during the year ended June 30, 2019 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.
- V. Reclassifications – Certain reclassifications of 2018 amounts have been made to conform to the 2019 presentation.

Note 2. Liquidity and Availability

The following table reflects the University's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general expenditures within one year.

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 1,694,792	\$ 7,245,356
Accounts receivable	2,499,591	2,662,420
Pledges receivable, net	<u>18,817,500</u>	<u>7,222,719</u>
Financial assets, at year-end	23,011,883	17,130,495
Less pledges receivable restricted by donor	(18,817,500)	(7,222,719)
Plus endowment spending rate appropriation	<u>12,062,718</u>	<u>14,492,291</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,257,101</u>	<u>\$ 24,400,067</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 \$6,000,000, which it could draw upon. Additionally, the University has a board-designated endowment of \$7,882,818 as of June 30, 2019. 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 University has redeemed holdings from other managers and placed those funds and transferred other investments into these investment vehicles.

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

	June 30	
	<u>2019</u>	<u>2018</u>
Fixed income	\$ 5,876,116	\$ 6,750,050
Other	637,390	634,358
U.S. Government securities	94,375	94,369
Common stocks	13,182,054	56,435,125
Depository receipts	701,202	-
Exchange-traded funds		
Global equity	32,551,230	23,394,638
Real assets	5,091,422	3,637,215
U.S. equity	29,016,369	9,870,485
Fixed income	4,619,509	4,202,967
Mutual funds		
Global equity	10,662,962	10,960,374
Real assets	4,590,286	6,365,154
U.S. equity	1,615,367	-
Fixed income	10,592,546	12,462,383
Commingled funds		
Global equity	11,289,463	11,111,563
Real assets	3,274,171	3,924,492
Hedge fund class		
Global equity	11,567,746	5,272,575
Absolute return/credit	18,292	48,080
U.S. equity	3,439,470	-
Private equity fund class		
Global venture capital/private	721,652	7,919,591
Hybrid fund of funds	11,499,054	391,648
Private equity fund class	955,810	-
Real assets	2,456,617	2,739,012
U.S. private equity	795,732	3,517,598
U.S. venture capital	4,959,226	5,222,098
Multi-asset class	69,726,434	69,790,295
Money market mutual funds	2,281,024	469,726
Cash and cash equivalents	10,603,486	2,620,410
Total investments	<u>\$252,819,005</u>	<u>\$247,834,206</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments (Continued)

At June 30, 2019, the University has committed to invest additional funds in limited partnership investments in the amount of approximately \$12,032,000, at the direction of the general partners. Investment expenses were \$1,177,000 and \$1,476,000 for the years ended June 30, 2019 and 2018, respectively, and are included in investment income.

The composition of investment return is as follows:

	Years Ended June 30	
	<u>2019</u>	<u>2018</u>
Investment income (interest and dividends)	\$ 190,868	\$ 257,825
Realized and unrealized gains on investments	9,482,128	18,239,664
Total investment return	9,672,996	18,497,489
Investment return designated for current operations	<u>(12,253,586)</u>	<u>(14,750,116)</u>
Non-operating investment return	<u>\$ (2,580,590)</u>	<u>\$ 3,747,373</u>

Note 4. Pledges Receivable

As of June 30, 2019 and 2018, the University had received unconditional promises totaling \$21,098,605 and \$7,946,159, respectively, on which management has recorded an allowance for uncollectible promises of \$268,562 and \$330,046, respectively. The amounts are recorded at the present value of future cash flows based on a discount rate of 3% for June 30, 2019 and 2018. The discount is \$2,012,543 and \$393,394 at June 30, 2019 and 2018, respectively. The pledges receivable are due as follows:

	June 30, 2019			
	With Donor Restriction Plant	With Donor Restriction Other	With Donor Restriction Corpus	Total
Less than one year	\$ 192,032	\$ 153,625	\$ 215,661	\$ 561,318
One to five years	2,143,637	4,615,876	2,470,396	9,229,909
More than five years	147,441	8,626,088	252,744	9,026,273
	<u>\$ 2,483,110</u>	<u>\$ 13,395,589</u>	<u>\$ 2,938,801</u>	<u>\$ 18,817,500</u>

	June 30, 2018			
	With Donor Restriction Plant	With Donor Restriction Other	With Donor Restriction Corpus	Total
Less than one year	\$ 1,167,893	\$ 419,798	\$ 79,792	\$ 1,667,483
One to five years	1,089,771	1,480,350	2,629,187	5,199,308
More than five years	152,525	-	203,403	355,928
	<u>\$ 2,410,189</u>	<u>\$ 1,900,148</u>	<u>\$ 2,912,382</u>	<u>\$ 7,222,719</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 4. Pledges Receivable (Continued)

At June 30, 2019 and 2018, 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, 2019 and 2018 consist of the following:

	June 30	
	2019	2018
Grounds and land improvements	\$ 13,326,731	\$ 13,045,837
Buildings and building improvements	173,702,838	171,003,822
Equipment	20,239,807	17,907,792
Vehicles and office equipment	9,495,339	9,498,212
Less accumulated depreciation	(84,360,307)	(78,866,844)
	\$132,404,408	\$132,588,819

Depreciation expense totaled \$5,889,071 and \$5,277,553 for the years ended June 30, 2019 and 2018, 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, \$2,739,850 and \$2,791,549 for the years ended June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net Periodic Benefit Cost				
Service cost	\$ -	\$ -	\$ 44,534	\$ 59,457
Interest cost	100,509	102,152	242,842	270,632
Return on plan assets	(126,690)	(127,050)	-	-
Prior service cost	-	-	(2,930,008)	(2,941,180)
Amortization of loss	<u>42,167</u>	<u>118,404</u>	<u>313,605</u>	<u>569,063</u>
Net periodic benefit cost	<u>\$ 15,986</u>	<u>\$ 93,506</u>	<u>\$ (2,329,027)</u>	<u>\$ (2,042,028)</u>

The pension plan has \$585,175 of unrecognized actuarial loss at June 30, 2019. The estimated amortization of actuarial loss is \$102,142 in 2020.

The postretirement benefit plan has amounts unrecognized in net periodic benefit cost for prior service credit of \$5,126,796 and a net actuarial loss of \$2,885,905 at June 30, 2019. The estimated amortization of prior service cost and actuarial loss is \$2,655,828 and \$525,731, respectively, in 2020.

	Pension Plan		Postretirement Benefit Plan	
	June 30		June 30	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 2,626,211	\$ 2,978,707	\$ 6,603,352	\$ 7,719,000
Service cost	-	-	44,534	59,457
Interest cost	100,509	102,152	242,842	270,632
Actual distributions	(193,086)	(225,614)	-	-
Actuarial gain	192,584	(229,034)	1,262,913	(952,107)
Net contributions (employer)	-	-	(849,578)	(493,630)
Change in plan provisions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Benefit obligation at end of year	2,726,218	2,626,211	7,304,063	6,603,352
Plan assets	<u>2,023,089</u>	<u>2,102,645</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (703,129)</u>	<u>\$ (523,566)</u>	<u>\$ (7,304,063)</u>	<u>\$ (6,603,352)</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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Actuarial Assumptions				
Weighted average discount rate:				
Expense	4.00%	3.50%	3.85%	3.65%
Benefit obligation (at year end)	3.25%	4.00%	3.21%	3.85%
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	8.00%	8.5%/N/A
Ultimate trend rate	N/A	N/A	4.75%	5.00%
Year reached	N/A	N/A	2027	2028

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, 2019 would also increase by \$140,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2019 would increase by \$7,000. If the medical trend rates were to decrease by 1% for each year, the benefit obligation as of June 30, 2019 would also decrease by \$130,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2019 would decrease by \$7,000.

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	2019	2018	Target
	<u>Actual</u>	<u>Actual</u>	
Equity securities	55.1 %	54.2 %	50-70 %
Debt securities	43.3	44.8	30-50
Cash equivalents	<u>1.6</u>	<u>1.0</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

There are no expected contributions to the pension plan for the year ended June 30, 2020.

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>
2020	\$ 165,311	\$ 607,000
2021	171,127	650,000
2022	168,929	602,000
2023	167,300	612,000
2024	168,744	640,000
2025 - 2029	862,089	2,453,000

The University's pension plan assets at June 30, 2019 and 2018 are all Level 1 assets. The fair value, by asset category, is as follows:

	<u>2019</u>	<u>2018</u>
Equity securities	\$1,113,773	\$1,139,363
Debt securities	873,039	942,950
Cash equivalents	<u>36,377</u>	<u>20,332</u>
	<u>\$2,023,189</u>	<u>\$2,102,645</u>

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.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Investment in OWU Properties

The University owned all the stock in its taxable subsidiary, OWU Properties. OWU Properties was the general partner in the Austin Manor Limited Partnership (Austin Manor) and owned 1% of the partnership units of Austin Manor. The University also owned a 2% interest in Austin Manor, directly. Austin Manor was formed to finance the renovation of a University owned residence hall into an apartment complex. As part of the renovation, the University transferred ownership of the residence hall and the related land to OWU Properties.

The University has consolidated the assets and operations of OWU Properties into its financial statements. The assets and operations of OWU Properties were immaterial to the University for the year ended June 30, 2018.

In August 2018, the Austin Manor property was sold to an investor netting the University approximately \$1.4 million which is included in other income in the consolidated statement of activities. The operations of OWU Properties ceased upon the sale.

Note 8. Bonds and Notes Payable

Under an unsecured line of credit arrangement with a bank, the University may borrow up to \$6,000,000 at the London Interbank Offered Rate (LIBOR) interest rate (2.40% at June 30, 2019) plus 1.15% to fund cyclical working capital requirements. The line of credit arrangement expires in March 2020. As of June 30, 2019, there was \$-0- outstanding on this line of credit (\$-0- outstanding as of June 30, 2018). 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, 2019 and 2018 was \$-0-.

Long-term bonds and notes payable at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Fixed-rate bonds issued in May 2015, maturing through 2025 (2015 Bonds)	\$11,178,158	\$12,743,627
Variable-rate note issued in December 2011, maturing through 2021 (2011 Note)	9,382,472	9,863,624
Fixed-rate draw notes issued in April 2019, maturing through 2029 (2019 Notes)	<u>752,512</u>	<u>-</u>
	21,313,142	22,607,251
Unamortized discount, premium and bond issuance costs	<u>(97,934)</u>	<u>(115,265)</u>
Total bonds payable	<u>\$21,215,208</u>	<u>\$22,491,986</u>

On May 6, 2015, the University, in conjunction with the Ohio Higher Educational Facility Commission (the Commission), issued \$17,339,202 of State of Ohio Higher Educational Facility bonds (the 2015 Bonds) at a 2.48% fixed rate. While the bonds were issued through the Commission, they were placed as a private placement with the Delaware County Bank and BMO Harris Bank. The bond proceeds were used to retire a 2009 Bond issue.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Bonds and Notes Payable (Continued)

The 2015 Bonds are subject to the 2015 bond base lease terms (the Lease) with the Commission in conjunction with the 2009 Project. The University is required to make rental payments under the Lease in amounts sufficient to pay the principal and interest on the 2015 Bonds. The 2015 Bonds are special obligations of the State of Ohio and the debt service on the 2015 Bonds is payable solely from the revenues to be derived by the Commission from its ownership of the 2009 Project. The 2015 Bonds are collateralized by a security interest in the 2009 Project. The University has agreed to purchase the 2009 Project from the Commission after all of the debt service on the 2015 Bonds has been paid.

On December 16, 2011, the University entered into a loan in the form of a draw term loan agreement with PNC Bank for up to \$15,000,000 (the 2011 Note). The terms of the loan call for a 2-year interest-only repayment period during the draw period, then an additional 96 months to maturity based on a 25-year amortization of the balance with a balloon payment due for any outstanding balance on the bonds' maturity date of December 16, 2021. The loan is based on the daily LIBOR rate (2.37% at June 30, 2019) plus 1.10%. The proceeds were for the renovation of Stuyvesant Hall.

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 as of June 30, 2019 is \$752,512.

In May 2015, the University entered into a promissory note agreement of \$426,100. The note was paid in full in May 2018.

On August 14, 2019, the University, in conjunction with the Commission, issued \$48,370,000 of State of Ohio Higher Educational Facility bonds (the 2019 Bonds) at a 5.00% fixed rate with a 30-year maturity. The principal and interest are paid annually on October 1. The bonds were issued through the Commission. They were placed as a private placement. The funds were issued in the form of a draw term. The bond proceeds retired the 2011 Note and 2015 Bonds. The remaining proceeds are to be utilized for the renovation of various residence halls on campus and new residence housing apartments.

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

2020	\$ 2,221,456
2021	2,460,892
2022	10,388,615
2023	1,728,550
2024	1,771,909
Thereafter	<u>2,741,720</u>
	<u>\$21,313,142</u>

Interest expense for all bonds payable for the years ended June 30, 2019 and 2018 was \$661,745 and \$617,741, respectively.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. 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>2019</u>	<u>2018</u>
Scholarships, prizes and awards - corpus	\$ 85,032,624	\$ 82,216,900
Scholarships, prizes and awards - earnings	31,599,496	30,833,010
Faculty support and academic programs - corpus	35,043,071	33,562,385
Faculty support and academic programs - earnings	7,686,331	8,625,645
General university operations - corpus	46,564,959	46,195,493
General university operations - earnings	18,890,685	21,010,448
Library acquisitions - corpus	1,315,782	1,314,732
Library acquisitions - earnings	1,299,370	1,305,727
Annuity, pooled income and unitrust funds - corpus	6,301,056	6,241,688
Annuity, pooled income and unitrust funds - earnings	(860,710)	(1,745,425)
Interest in trusts - corpus	1,941,613	1,997,733
Interest in trusts - earnings	1,018,120	1,015,791
Endowment income designated for restricted purposes	12,211,988	12,211,988
Unexpended gifts and grants	3,776,863	3,733,599
Pledges receivable - corpus	2,938,801	2,912,382
Student loan funds - corpus	2,391,567	2,324,525
Pledges receivable	15,878,699	4,310,337
Other purposes - corpus	10,326,066	8,856,014
Other purposes	1,072,600	1,468,103
	<u>\$284,428,981</u>	<u>\$268,391,075</u>

Net assets released from restrictions relate to the following:

	June 30	
	<u>2019</u>	<u>2018</u>
Academic support, including library	\$ 1,512,240	\$ 1,275,689
Financial aid from outside sources	6,046,984	5,855,252
Plant	823,730	632,790
Instruction	2,593,506	1,218,400
Management and general	520,333	1,002,504
Student services	1,373,259	1,059,129
Research	254,599	368,215
Other	4,021,915	3,484,281
	<u>\$ 17,146,566</u>	<u>\$ 14,896,260</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. 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, 2019 and 2018 were \$12,062,718 and \$14,492,291, respectively. The University's spending policy authorized \$12,062,718 and \$11,411,164 to be distributed during the years ended June 30, 2019 and 2018, respectively. In FY18, the Board passed a resolution for the distribution to include a supplemental endowment draw to support Board-approved investments in strategic initiatives.

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 \$10,395,890 and \$582,364 at June 30, 2019 and 2018, respectively.

The endowment pool, which includes true endowment and quasi-endowment, was as follows as of June 30, 2019 and 2018:

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment assets, beginning of year	\$ 7,993,246	\$231,628,629	\$239,621,875
Investment return:			
Investment income	45,804	1,376,673	1,422,477
Net appreciation (realized and unrealized)	<u>229,730</u>	<u>7,750,049</u>	<u>7,979,779</u>
Total investment return	275,534	9,126,722	9,402,256
Cash contributions and transfers	23,086	6,096,845	6,119,931
Appropriation of endowment assets for expenditure	<u>(409,048)</u>	<u>(11,653,670)</u>	<u>(12,062,718)</u>
Endowment assets, end of year	<u>\$ 7,882,818</u>	<u>\$235,198,526</u>	<u>\$243,081,344</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. Endowment Funds (Continued)

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment assets, beginning of year	\$ 6,642,976	\$214,659,115	\$221,302,091
Investment return:			
Investment income	42,025	1,072,437	1,114,462
Net appreciation (realized and unrealized)	658,820	16,521,786	17,180,606
Total investment return	700,845	17,594,223	18,295,068
Cash contributions and transfers	4,183,374	10,333,633	14,517,007
Appropriation of endowment assets for expenditure	(3,533,949)	(10,958,342)	(14,492,291)
Endowment assets, end of year	<u>\$ 7,993,246</u>	<u>\$231,628,629</u>	<u>\$239,621,875</u>

Note 11. Noncontrolling Interest

The following is a reconciliation of net assets relating to the University and to the noncontrolling interests of Stuyvesant Hall and Master Tenant:

	University	Noncontrolling Interest	Total
Net assets balance at June 30, 2017	\$336,726,554	\$ 6,280,170	\$343,006,724
Capital distribution	-	(79,477)	(79,477)
Change in net assets attributable to:			
University	13,648,919	-	13,648,919
Noncontrolling interests	-	(162,453)	(162,453)
Net assets balance at June 30, 2018	350,375,473	6,038,240	356,413,713
Change in net assets attributable to:			
University	12,619,219	-	12,619,219
Change in/acquisition of noncontrolling interests	6,038,240	(6,038,240)	-
Net assets balance at June 30, 2019	<u>\$369,032,932</u>	<u>\$ -</u>	<u>\$369,032,932</u>

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Commitments and Contingencies

At June 30, 2019, the University has outstanding commitments on various construction projects totaling approximately \$3,572,114 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.