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**OTTAWA UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
*JUNE 30, 2018*

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For Discussion  
Purposes Only

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## **Independent Auditors' Report**

Board of Trustees  
Ottawa University  
Ottawa, Kansas

### **Report On The Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Ottawa University (the University), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility For The Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 the 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ottawa University as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### ***Other Matter – Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Activities by Unit and Changes in Unrestricted Net Assets listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required By *Government Auditing Standards*

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

[REDACTED] \*

[REDACTED] \*

For Discussion  
Purposes Only

# OTTAWA UNIVERSITY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Assets

	June 30,	
	2018	2017
Cash and cash equivalents	\$ 9,115,080	\$ 180,643
Restricted cash for construction	2,950,000	—
Restricted cash for government loan programs	25,000	25,008
Investments held by bond trustee under loan agreement	113,792	113,792
Accounts receivable:		
Students, net of allowance; 2018 - \$693,000 2017 - \$595,000	1,582,194	628,867
Pledges, net of unamortized discount and allowance	2,411,073	4,412,842
Estate gift receivable	550,000	—
Other	582,231	191,675
Student loans receivable	3,006,110	2,910,215
Inventories	387,528	364,391
Prepaid expenses	666,412	771,739
Investments	18,330,971	17,568,537
Other	57,333	46,045
	<b>39,777,724</b>	<b>27,213,754</b>
Property and equipment:		
Land and land improvements	3,163,978	3,112,960
Buildings	42,066,639	46,134,663
Equipment	19,550,669	18,282,755
Vehicles	78,590	83,590
Leasehold improvements	2,868,240	696,277
Project in progress	2,196,072	392,790
	<b>69,924,188</b>	<b>68,703,035</b>
Less: Accumulated depreciation and amortization	29,816,900	32,340,954
	<b>40,107,288</b>	<b>36,362,081</b>
<b>Total Assets</b>	<b>\$ 79,885,012</b>	<b>\$ 63,575,835</b>

### Liabilities And Net Assets

<b>Liabilities</b>		
Outstanding checks in excess of bank balance	\$ —	\$ 232,870
Accounts payable	2,306,210	669,406
Accrued liabilities	2,667,083	1,988,133
Deferred revenues	4,830,894	1,215,573
Asset retirement obligations	90,219	87,461
Present value of annuities payable	72,674	78,228
Notes, bonds, and capital lease payable:		
Principal amount	49,447,596	40,773,164
Less: Unamortized debt issuance costs	757,044	442,432
Notes, bonds, and capital lease payable - less unamortized debt issuance costs	48,690,552	40,330,732
Refundable government loan programs	2,700,000	2,641,477
<b>Total Liabilities</b>	<b>61,357,632</b>	<b>47,243,880</b>
<b>Net Assets</b>		
Unrestricted	5,047,827	2,949,960
Temporarily restricted	110,229	263,548
Permanently restricted	13,369,324	13,118,447
<b>Total Net Assets</b>	<b>18,527,380</b>	<b>16,331,955</b>
<b>Total Liabilities And Net Assets</b>	<b>\$ 79,885,012</b>	<b>\$ 63,575,835</b>

# OTTAWA UNIVERSITY

## CONSOLIDATED STATEMENT OF ACTIVITIES For The Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains And Other Support</b>				
Student tuition and fees	\$ 50,597,463	\$ —	\$ —	\$ 50,597,463
Less: University-funded scholarships	16,333,729	—	—	16,333,729
Net tuition and fees	34,263,734	—	—	34,263,734
Interest and dividends, net of fees	132,396	94,673	—	227,069
Net realized gains on investments	66,112	16,155	—	82,267
Net unrealized gains (losses) on investments	(83,049)	168,566	21,835	107,352
Private gifts, grants and bequests	10,163,329	116,885	229,042	10,509,256
Auxiliary enterprises	6,703,544	—	—	6,703,544
Other	1,155,014	—	—	1,155,014
<b>Total Operating Revenues, Gains And Other Support</b>	<b>52,401,080</b>	<b>396,279</b>	<b>250,877</b>	<b>53,048,236</b>
Net assets released from restrictions	549,598	(549,598)	—	—
<b>Total Revenues, Gains And Other Support</b>	<b>52,950,678</b>	<b>(153,319)</b>	<b>250,877</b>	<b>53,048,236</b>
<b>Expenses And Losses</b>				
Education and general:				
Instruction	8,473,430	—	—	8,473,430
Academic support	2,737,103	—	—	2,737,103
Student services and activities	14,253,236	—	—	14,253,236
Institutional support	15,838,530	—	—	15,838,530
Operation and maintenance of plant	2,471,942	—	—	2,471,942
Total education and general	43,774,241	—	—	43,774,241
Fundraising expenses	878,965	—	—	878,965
Auxiliary enterprises	6,181,708	—	—	6,181,708
Other	17,897	—	—	17,897
<b>Total Expenses And Losses</b>	<b>50,852,811</b>	<b>—</b>	<b>—</b>	<b>50,852,811</b>
<b>Change In Net Assets</b>	<b>2,097,867</b>	<b>(153,319)</b>	<b>250,877</b>	<b>2,195,425</b>
<b>Net Assets - Beginning Of Year</b>	<b>2,949,960</b>	<b>263,548</b>	<b>13,118,447</b>	<b>16,331,955</b>
<b>Net Assets - End Of Year</b>	<b>\$ 5,047,827</b>	<b>\$ 110,229</b>	<b>\$ 13,369,324</b>	<b>\$ 18,527,380</b>

# OTTAWA UNIVERSITY

## CONSOLIDATED STATEMENT OF ACTIVITIES For The Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains And Other Support</b>				
Student tuition and fees	\$ 35,991,213	\$ —	\$ —	\$ 35,991,213
Less: University-funded scholarships	9,957,633	—	—	9,957,633
Net tuition and fees	26,033,580	—	—	26,033,580
Interest and dividends, net of fees	122,457	83,825	—	206,282
Net realized gains on investments	240,844	376,340	—	617,184
Net unrealized gains (losses) on investments	67,229	(6,768)	75,520	135,981
Private gifts, grants and bequests	5,903,378	—	175,567	6,078,945
Auxiliary enterprises	4,137,536	—	—	4,137,536
Other	614,206	—	—	614,206
<b>Total Operating Revenues, Gains And Other Support</b>	37,119,230	453,397	251,087	37,823,714
Net assets released from restrictions	655,523	(655,523)	—	—
<b>Total Revenues, Gains And Other Support</b>	37,774,753	(202,126)	251,087	37,823,714
<b>Expenses And Losses</b>				
Education and general:				
Instruction	6,883,213	—	—	6,883,213
Academic support	2,594,633	—	—	2,594,633
Student services and activities	9,340,966	—	—	9,340,966
Institutional support	12,525,099	—	—	12,525,099
Operation and maintenance of plant	1,636,984	—	—	1,636,984
Total education and general	32,980,895	—	—	32,980,895
Fundraising expenses	1,114,275	—	—	1,114,275
Auxiliary enterprises	4,247,476	—	—	4,247,476
Other	39,083	—	—	39,083
<b>Total Operating Expenses</b>	38,381,729	—	—	38,381,729
<b>Change In Net Assets</b>	(606,976)	(202,126)	251,087	(558,015)
<b>Net Assets - Beginning Of Year</b>	3,556,936	465,674	12,867,360	16,889,970
<b>Net Assets - End Of Year</b>	\$ 2,949,960	\$ 263,548	\$ 13,118,447	\$ 16,331,955



# OTTAWA UNIVERSITY

## CONSOLIDATED STATEMENT OF CASH FLOWS

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	For The Years Ended June 30,	
	2018	2017
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 2,195,425	\$ (558,015)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gains on investments	(82,267)	(617,184)
Net unrealized (gains) losses on investments	(107,352)	(135,981)
Depreciation and amortization	2,662,261	2,492,138
Amortization of debt issue costs included with interest expense	17,296	34,361
Contributions restricted for investment	(229,042)	(175,567)
Actuarial loss on annuity obligations	9,642	12,350
(Gain) loss on disposal of equipment	1,700	(26,737)
Changes in:		
Accounts and other receivables	(1,989,778)	(338,725)
Inventories	(23,137)	(35,884)
Pledge receivables	2,036,769	(2,052,518)
Prepaid expense	105,327	(108,723)
Accounts payable and accrued liabilities	1,197,786	378,494
Deferred revenues	3,615,321	276,392
Other assets	(11,288)	(29,752)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>9,398,663</b>	<b>(885,351)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(4,765,118)	(2,228,230)
Purchase of investments	(10,214,169)	(3,925,076)
Proceeds from disposition of investments	9,641,354	3,990,628
Payments to annuitants	(15,196)	(29,517)
Change in investments and cash held by bond trustee	—	1,661,379
<b>Net Cash Used In Investing Activities</b>	<b>(5,353,129)</b>	<b>(530,816)</b>

# OTTAWA UNIVERSITY

## CONSOLIDATED STATEMENT OF CASH FLOWS

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	For The Years Ended June 30,	
	2018	2017
<b>Cash Flows From Financing Activities</b>		
Change in restricted cash for government loan programs	\$ —	\$ (3)
Change in outstanding checks in excess of bank balance	(232,870)	232,870
Payment of bond issuance costs	(331,908)	—
Contributions restricted for investment	194,042	175,567
Proceeds from notes and bonds payable	23,340,000	4,500,000
Payments on notes and bonds payable	(12,443,355)	(4,890,467)
Net change in line of credit	(2,450,760)	625,763
Change in refundable government loan program	58,523	57,393
Payments of capital lease obligation	(294,777)	(260,901)
<b>Net Cash Provided By Financing Activities</b>	<b>7,838,895</b>	<b>440,222</b>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>11,884,429</b>	<b>(975,945)</b>
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<b>205,651</b>	<b>1,181,596</b>
<b>Cash And Cash Equivalents - End Of Year</b>	<b>\$ 12,090,080</b>	<b>\$ 205,651</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 2,234,853	\$ 1,965,576
<b>Supplemental Schedule Of Noncash Investment And Financing Activities</b>		
Acquisition of property through a capital lease	523,324	1,186,864
Fixed assets financed with accounts payable	1,117,968	—

# OTTAWA UNIVERSITY

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 And 2017

### 1. Nature Of Operations And Summary Of Significant Accounting Policies

Ottawa University (the University) is a multi-site, not-for-profit university, including centers for adult learners (Arizona, Indiana, Kansas and Wisconsin) (the Centers) as well as the original campus (the College) founded in 1865 in Ottawa, Kansas, 50 miles southwest of Kansas City. In 2008, the University launched the new Online Division providing opportunity to those students wanting to complete their degree without the traditional classroom settings. Ottawa Investment Management Services (OIMS) was incorporated June 3, 2009 and is a wholly-owned subsidiary of the University. OIMS manages investments and holds property on behalf of the University. In 2017, the University opened a new residential campus in Surprise, Arizona (OUAZ) which represents Ottawa's second residential campus and operates as a separate institution for Athletics purposes. In 2018, the adult learning center in Indiana was closed.

#### **Basis Of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of Ottawa University and Ottawa Investment Management Services (collectively referred to as the University). All significant interorganization balances and transactions have been eliminated in consolidation.

#### **Use Of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates in the University's financial statements are the allowances for uncollectible accounts and pledges receivable.

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

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers. At June 30, 2018, the University's cash accounts exceeded the federally insured limits by approximately \$9,149,000.

**Restricted Cash and Cash Equivalents**

Restricted cash for construction represents cash restricted by the United States Department of Agriculture debt proceeds (see Note 5) restricted for construction purposes.

**Investments And Investment Return**

Investments in mutual funds and other equity securities and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividends, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment income and gains that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included in unrestricted net assets. Other investment income, gains and losses are reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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

**Student Accounts And Loans Receivable**

Student accounts receivable are stated at the amounts billed to students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester, unless the student has signed a payment plan. Charges that are past due and have had no response to the due diligence process are assigned to third-party collection agencies. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Loans receivable consist primarily of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Interest income is recorded as received, which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

**Inventories**

Inventories, consisting of books and supplies in the University's bookstores and publication supplies, are stated at the lower of first-in, first-out cost or market.

**Debt Issuance Costs**

Costs incurred in connection with the issuance of debt of \$843,062 and \$511,154 have been capitalized and amortized using the effective-interest method over the term of the debt for the years ended June 30, 2018 and 2017, respectively. In connection with the debt refinancing transaction discussed in *Note 5*, the University capitalized approximately \$322,000 of debt issuance costs related to the USDA loan issuance and approximately \$10,000 related to the issuance of the construction line of credit in 2018. There were no amounts capitalized in 2017. Accumulated amortization amounted to \$86,018 at June 30, 2018 and \$69,592 at June 30, 2017. Amortization expense totaled \$17,296 and \$34,361 for the years ended June 30, 2018 and 2017, respectively. Amortization expense on the debt issue costs is included with interest expense in the expenses and losses on the statement of activities.

**Property And Equipment**

Property and equipment are depreciated primarily on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Physical plant and equipment have been substantially recorded at cost with the exception of gifts, which are recorded at market value at date of acquisition. Donated property and equipment are reported as increases in unrestricted net assets unless the use of the assets is restricted by the donor.

**Long-Lived Asset Impairment**

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 or 2017.

**Deferred Revenues**

The University records tuition revenue and related expenses in the period in which the session is substantially completed. Accordingly, certain revenues have been deferred at June 30, 2018 and 2017 and will be recognized as the courses are completed.

**Temporarily And Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the University has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the University in perpetuity.

**Contributions**

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

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

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

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

For the years ended June 30, 2018 and 2017, one donor contributed approximately 67% and 29%, respectively, of total contribution revenue.

### **Annuities Payable**

The University has annuity contracts with contributors, which provide that the University will pay a specified amount to an annuitant during the annuitant's lifetime. The present value of annuities payable is recorded based upon management's estimates of each annuitant's life expectancy and the expected rate of return over the life of each annuity contract.

### **Income Taxes**

The Internal Revenue Service has issued a determination letter that the University is a nonprofit organization as defined under Section 501(c)(3) of the Internal Revenue Code and is exempt from income tax. However, the University is subject to unrelated business tax. The University files tax returns in the U.S. federal jurisdiction.

### **Advertising Expense**

The University expenses the costs for advertising as they are incurred. The total amount charged to advertising for the years ended June 30, 2018 and 2017 was \$912,364 and \$1,052,316, respectively.

### **Functional Allocation Of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program categories based on various methods.

**Transfer Between Fair Value Hierarchy Levels**

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

**Subsequent Events**

Subsequent events have been evaluated through [REDACTED], 2018, the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

For Discussion  
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## 2. Investments

Investments at June 30, 2018 and 2017 consist of the following:

	2018	2017
<b>Investments At Fair Value</b>		
Money market fund	\$ 3,493,586	\$ 6,931,368
Mutual funds	2,278	2,041
Common stock	1,580,884	432,632
U.S. government agency securities	1,050,890	1,355,747
Corporate bonds	1,816,217	1,771,705
Fixed income funds	3,615,105	447,434
Beneficial interest in trusts	1,764,526	1,742,691
	<b>13,323,486</b>	<b>12,683,618</b>
<b>Investments At Cost/Net Realizable Value</b>		
Oil/gas interests	45,000	55,000
Land	180,051	63,051
Certificates of deposit	4,682,017	4,682,017
Cash surrender value of life insurance	100,417	84,851
	<b>5,007,485</b>	<b>4,884,919</b>
<b>Total Investments</b>	<b>\$ 18,330,971</b>	<b>\$ 17,568,537</b>

For the years ended June 30, 2018 and 2017, investment returns consisted of the following and are reflected as such in the consolidated statements of activities:

	2018	2017
Net realized gains on investments	\$ 82,267	\$ 617,184
Net unrealized gains on investments	107,352	135,981
Interest and dividends, net of fees	227,069	206,282
	<b>\$ 416,688</b>	<b>\$ 959,447</b>

The University is the beneficiary under several perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$1,764,526 and \$1,742,691 which represents the fair value of the trust assets at June 30, 2018 and 2017, respectively. The gain from these trusts for 2018 was \$21,835 and the gain from these trusts in 2017 was \$75,520.

### 3. Pledges Receivable

Pledges receivable at June 30, 2018 and 2017 consisted of the following unconditional promises to give, discounted at a rate of 2.5%:

	2018	2017
Due within one year	\$ 1,475,725	\$ 1,547,702
Due in one to five years	2,076,410	3,443,749
Due in more than five years	—	136,372
	<b>3,552,135</b>	<b>5,127,823</b>
Less: unamortized discount	170,500	158,638
Less: allowance for uncollectible accounts	970,562	556,343
	<b>\$ 2,411,073</b>	<b>\$ 4,412,842</b>

At June 30, 2018 and 2017, approximately \$1,041,181 and \$1,811,172, respectively, of pledges receivable were due from members of the University's Board of Trustees. At June 30, 2018 and 2017, three and four donors had pledged approximately 76% and 75%, respectively, of the total pledges. At June 30, 2018, there were no pledges from a vendor to the University. At June 30, 2017, \$545,450 of pledges was from a vendor to the University.

### 4. Loans Receivable

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan (FPL) Program. The availability of funds under the Federal Perkins Loan Program is dependent on reimbursement to the loan fund from repayments on outstanding loans. Funds advanced by the federal government totaled approximately \$2,700,000 and \$2,641,400 as of June 30, 2018 and 2017, respectively. These advances including cumulative gains and losses are ultimately refundable to the federal government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans canceled under the program result in a reduction of funds available for future loans and a decrease in the University's liability to the federal government. These loan amounts represent approximately 5% of total assets for both years ended June 30, 2018 and 2017.

For the Federal Perkins Loan Program, the federal government bears the risk of loss of uncollectible loans provided the University performs required collection due diligence procedures. Therefore, the University has recorded an allowance for uncollectible accounts at June 30, 2018 and 2017. The University does not stop the accrual of interest until a loan is written off; therefore, the University has no loans on nonaccrual status.

Loans receivable at June 30 include:

	2018	2017
Federal Perkins Loans due from students	\$ 3,006,110	\$ 2,910,215

The following tables represent the amounts past due under the University's student loan program as of June 30, 2018 and 2017:

	2018					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
FPL Program	\$ 19,178	\$ 30,458	\$ 997,110	\$ 1,046,746	\$ 1,959,364	\$ 3,006,110

	2017					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
FPL Program	\$ 56,893	\$ 49,812	\$ 965,087	\$ 1,071,792	\$ 1,838,423	\$ 2,910,215

## 5. Notes And Bonds Payable

At June 30, 2018 and 2017, notes and bonds payable consisted of the following:

	2018	2017
Revenue anticipation notes, Series 2018 (A)	\$ 4,500,000	\$ —
Revenue anticipation notes, Series 2017 (B)	—	4,500,000
Educational facilities revenue bonds, Series 2015 (C)	16,450,000	16,650,000
Revolving line of credit (D)	6,513,959	8,963,146
Notes payable (E)	2,143,478	2,204,252
Notes payable (F)	—	7,529,803
Notes payable (G)	847,221	—
USDA - Rural Loan (H)	17,840,000	—
	\$ 48,294,658	\$ 39,847,201

(A) Principal and interest at 5.00% due May 1, 2018.

(B) Principal and interest at 5.00% due May 1, 2017, paid in full.

- (C) 7% serial education facilities revenue bonds; interest payable quarterly with principal maturing on June 1 of each year through 2045 in varying amounts; collateralized by mortgage on certain buildings and land. Bonds were issued for the purpose of refunding the Series 2008A bonds and reimbursing the University for capital improvements.
- (D) At June 30, 2018, revolving line of credit of up to \$13,500,000; availability approximately \$6,990,000, based on the lesser of \$13,500,000 or the borrowing base, approximately \$13,500,000 at June 30, 2018. The borrowing base is calculated by a percentage of investments held at the lending institution:
- i. 75% of Common stock and mutual funds
  - ii. 90% of U.S. Treasury agency notes and bonds
  - iii. 85% of Corporate bonds
  - iv. 100% of Demand deposits, bank repurchase agreement investments and money market mutual funds
  - v. 100% of Certificates of deposit

Principal balances maturing on January 31, 2020; interest is subject to change with the Prime Rate and was 4.50% on June 30, 2018, and is payable monthly. Line also allows for a standby letter of credit not to exceed \$500,000, which will reduce the amount of principal available on the line of credit by the amount of all letters of credit outstanding. There were no outstanding letters of credit issued at June 30, 2018.

- (E) At June 30, 2018, construction note for \$2,143,478. Note amortizes over 25 years with a balloon payment set on March 31, 2019 for all remaining principal and interest. Interest is set at 4.75%, but subject to change to 4.25% if the University can maintain an average of \$150,000 in checking or deposit accounts with the lending institution. No prepayment fees exist if prepayment occurs after the third anniversary of the origination date (origination date of March 24, 2014). This construction loan is collateralized by certain real estate.

- (F) Prior to pay-off during 2018, construction note for an \$8,000,000 line of credit for 34 months (origination date of September 25, 2014) with an interest rate of 4.25%, interest only payments for the first 15 months then interest and principal payments for months 16 through 34. The note matured into a \$4,000,000 term note with 4% fixed interest for the first 16 months and prime plus .25% with a floor of 4.25% beginning at month 17. The note had a 25-year amortization with an initially scheduled balloon payment on January 20, 2018. On June 27, 2018, the remaining balance of principal and interest outstanding was paid off in full.
- (G) At June 30, 2018, construction note for a \$1,000,000 line of credit for 72 months (origination date of September 1, 2017) with an interest rate of 5.00%. Monthly payments of principal of \$13,889 plus interest due through maturity date of August 31, 2023.
- (H) At June 30, 2018, notes payable for \$17,840,000 to the United States Department of Agriculture (USDA) for 35 years (origination date of June 28, 2018) with an interest rate of 3.50%. Monthly payments of principal and interest of \$73,858 due through maturity date of June 28, 2053. These notes payable are collateralized by certain real estate. The notes are held by Ottawa Investment Management Services, Inc., a wholly owned subsidiary consolidated with Ottawa University. The notes payable require the University to establish a debt service reserve account and to deposit \$7,386 per month until the account accumulates a balance of \$886,296. Through June 30, 2018, no payments to the debt service reserve account were required to be made.

The University's outstanding serial educational facilities revenue bonds and outstanding construction loan agreement contain, among other provisions, certain representations, warranties, covenants and agreements with respect to: maintenance of insurance, maintenance of property and liens. These agreements require the University to comply with the same certain financial covenants, including maintaining a Debt Service Coverage Ratio of no less than 1.0 at the end of each fiscal year.

At June 30, 2018 and 2017, the University was in compliance with its debt service coverage ratio for construction notes (E), (F), and (G), the USDA notes payable (H), and Series 2015 Bonds (C).

Aggregate annual maturities and sinking fund requirements of debt at June 30, 2018 are as follows:

<b>Year</b>	<b>Amount</b>
2019	\$ 7,299,737
2020	7,204,628
2021	700,414
2022	735,506
2023	745,957
Thereafter	31,608,416
	<u>\$ 48,294,658</u>

The University incurred interest expense totaling \$2,280,283 and \$2,155,146 for the years ended June 30, 2018 and 2017, respectively.

## 6. Capital Leases

During the year ended June 30, 2018, the University entered into multiple capital leases. The gross amount of assets recorded under a capital lease, which are presented with equipment on the consolidated statement of net position, was \$1,709,508 and \$1,186,184 at June 30, 2018 and 2017, respectively. Amortization expense related to the capital leases totaled approximately \$148,971 and \$69,511 for the years ended June 30, 2018 and 2017, respectively, and the accumulated amortization at June 30, 2018 and 2017 was \$218,482 and \$69,511. Annual required minimum lease payments on the capital leases are as follows:

<b>Year</b>	<b>Amount</b>
2019	\$ 336,296
2020	336,370
2021	336,370
2022	103,933
2023	59,469
Thereafter	56,183
Total minimum obligations	1,228,621
Less: Amounts representing interest	74,510
Present value of minimum lease payments	<u>\$ 1,154,111</u>

Interest expense recognized under capital leases for the years ended June 30, 2018 and 2017 was \$20,972 and \$0, respectively.

## 7. Operating Leases and Lease Commitments

The University leases buildings and equipment under noncancelable operating leases expiring in various years. Buildings and office space are leased by the U.S. centers to obtain space for classrooms and administrative offices. These leases generally contain renewal options for periods ranging from one to five years and require the University to pay property taxes, maintenance and insurance. Rental expense for all operating leases was \$2,603,944 and \$1,160,468 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments for these operating leases at June 30, 2018 are as follows:

Year	Amount
2019	\$ 2,439,025
2020	1,284,643
2021	1,080,553
2022	944,219
2023	462,743
Thereafter	551,288
	<u>\$ 6,762,471</u>

During 2018, the University entered into one land lease for approximately 65 years that will commence after the University receives a certificate of occupancy for any building the University constructs on the leased land. If the lease has not commenced by June 30, 2020, then the lease shall be terminated as of that date. As of June 30, 2018, the lease had not commenced. The related payments required under this lease, which are not included in the future minimum lease payment table above, are \$136,750 per year with an increase of approximately 1.0% per year thereafter. Total payments for this lease over the 65 year term is approximately \$12,400,000.

**8. Pension Plan**

The University has a defined contribution retirement plan covering all regular full and part-time employees scheduled to work at least 30 hours per week. Contributions to the plan are used to purchase on behalf of plan participants annuity contracts in the Teachers Insurance and Annuity Association (TIAA) or shares offered in College Retirement Equities Fund (CREF). Employee benefits under these plans call for payments at retirement based on the accumulated values in the individual participant's accounts at date of retirement and, consequently, there are no prior service costs. Effective January 1, 2017 the University increased the matching contribution to 3% of regular salary. The University's contributions to the plan were \$368,276 and \$261,173 for the years ended June 30, 2018 and 2017, respectively.

**9. Temporarily Restricted Net Assets**

At June 30, 2018 and 2017, temporarily restricted net assets are available for the following purposes:

	2018	2017
Programming - Grant Funds	\$ 110,229	\$ 263,548
Total temporarily restricted net assets	\$ 110,229	\$ 263,548

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. These amounts released during the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Programming Grant Funds	\$ 270,204	\$ 202,126
Endowment fund appropriations	279,394	453,397
Total	\$ 549,598	\$ 655,523



## 10. Permanently Restricted Net Assets

At June 30, 2018 and 2017, permanently restricted net assets are restricted to:

	2018	2017
Scholarships and other	\$ 12,093,201	\$ 11,842,324
Faculty chairs	624,301	624,301
Choral music program	651,822	651,822
	<u>\$ 13,369,324</u>	<u>\$ 13,118,447</u>

## 11. Endowment

The University's endowment consists of approximately 250 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's Board of Trustees has interpreted the State of Kansas Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund.
2. Purposes of the University and the fund.
3. General economic conditions.

4. Possible effect of inflation and deflation.
5. Expected total return from investment income and appreciation/depreciation of investments.
6. Other resources of the University.
7. Investment policies of the University.

The composition of net assets by type of endowment fund at June 30, 2018 and 2017 was:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (822,474)	\$ —	\$ 11,463,703	\$ 10,641,229
Board-designated endowment funds	5,411,275	—	—	5,411,275
	<u>\$ 4,588,801</u>	<u>\$ —</u>	<u>\$ 11,463,703</u>	<u>\$ 16,052,504</u>

  

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (610,970)	\$ —	\$ 11,269,661	\$ 10,658,691
Board-designated endowment funds	4,654,657	—	—	4,654,657
	<u>\$ 4,043,687</u>	<u>\$ —</u>	<u>\$ 11,269,661</u>	<u>\$ 15,313,348</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017 were:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 4,043,687	\$ —	\$ 11,269,661	\$ 15,313,348
Investment return:				
Interest, dividends and realized gains	62,061	110,828	—	172,889
Net appreciation	103,459	168,566	—	272,025
<b>Total Investment Return</b>	<b>165,520</b>	<b>279,394</b>	<b>—</b>	<b>444,914</b>
Contributions	229,878	—	194,042	423,920
Repayment of internal borrowing	825,000	—	—	825,000
Appropriation of endowment assets for expenditure	(675,284)	(279,394)	—	(954,678)
<b>Endowment Assets, End Of Year</b>	<b>\$ 4,588,801</b>	<b>\$ —</b>	<b>\$ 11,463,703</b>	<b>\$ 16,052,504</b>

# OTTAWA UNIVERSITY

## Notes To Consolidated Financial Statements *(Continued)*

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 3,255,418	\$ —	\$ 11,094,094	\$ 14,349,512
Investment return:				
Interest, dividends and realized gains	278,379	460,165	—	738,544
Net depreciation	(4,123)	(6,768)	—	(10,891)
<b>Total Investment Return</b>	274,256	453,397	—	727,653
Contributions	92,860	—	175,567	268,427
Repayment of internal borrowing	880,000	—	—	880,000
Appropriation of endowment assets for expenditure	(458,847)	(453,397)	—	(912,244)
<b>Endowment Assets, End Of Year</b>	\$ 4,043,687	\$ —	\$ 11,269,661	\$ 15,313,348

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets and aggregated \$822,474 and \$610,970 at June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations.

The University has adopted investment and spending policies for endowment assets that attempt to provide funding for the programs and other items supported by its endowment. These policies assume a low level of investment risk and provide a return over and above the 5% spending rate, which is based on the average fair value over the prior 12 quarters. Accordingly, over the long term, the University's objective is to maintain the purchasing power of endowment assets held in perpetuity or for specified terms, as well as to provide additional real growth through new gifts and investment return.

During the years ended June 30, 2018 and 2017, the University's Board of Trustee's authorized a cumulative borrowing limit of \$3,200,000 from the board designated endowment assets to fund certain operating and capital activities of the University. During the year ended June 30, 2018, the University paid \$825,000 into the board designated endowment assets to repay a portion of the outstanding borrowing at June 30, 2018. The cumulative outstanding borrowing from the board designated endowment is \$2,375,000 at June 30, 2018.

## 12. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

### Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 3,493,586	\$ —	\$ —	\$ 3,493,586
Mutual funds	2,278	—	—	2,278
Common stocks	1,580,884	—	—	1,580,884
Fixed income funds	3,615,105	—	—	3,615,105
U.S. government agency securities	—	1,050,890	—	1,050,890
Corporate bonds	—	1,816,217	—	1,816,217
Beneficial interest in trust	—	—	1,764,526	1,764,526
	<u>\$ 8,691,853</u>	<u>\$ 2,867,107</u>	<u>\$ 1,764,526</u>	<u>\$ 13,323,486</u>
Investments held by bond trustee				
Money market mutual funds	\$ 113,792	\$ —	\$ —	\$ 113,792

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 6,931,368	\$ —	\$ —	\$ 6,931,368
Mutual funds	2,041	—	—	2,041
Common stocks	432,632	—	—	432,632
Fixed income funds	447,434	—	—	447,434
U.S. government agency securities	—	1,355,747	—	1,355,747
Corporate bonds	—	1,771,705	—	1,771,705
Beneficial interest in trust	—	—	1,742,691	1,742,691
	\$ 7,813,475	\$ 3,127,452	\$ 1,742,691	\$ 12,683,618
Investments held by bond trustee				
Money market mutual funds	\$ 113,792	\$ —	\$ —	\$ 113,792

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There has been no change in the valuation techniques during the year ended June 30, 2018.

### Investments

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

The classification of beneficial interest in assets held as Level 3 measurements is based on the ownership and permanently restricted status of these funds, and not based on the underlying quality or integrity of the investments that make up the balances. Classification as Level 3 results because such assets are held in perpetual trusts and the University does not have access to liquidate the investments and re-invest in assets of the University's choosing.

**Level 3 Measurements**

The table below presents information about recurring fair value measurements of Level 3 instruments:

	<b>Beneficial Interest In Assets Held</b>
<b>Balance - July 1, 2016</b>	\$ 1,667,171
Total gains for the period	<u>75,520</u>
<b>Balance - June 30, 2017</b>	1,742,691
Total gains for the period	<u>21,835</u>
<b>Balance - June 30, 2018</b>	<u><u>\$ 1,764,526</u></u>

Gains and losses included in the change in net assets for the year ended June 30, 2018 are presented in the consolidated statement of activities as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Gains and losses for the period included in investment return	\$ —	\$ —	\$ 21,835	\$ 21,835

Gains and losses included in the change in net assets for the year ended June 30, 2017 are presented in the consolidated statement of activities as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Gains and losses for the period included in investment return	\$ —	\$ —	\$ 75,520	\$ 75,520

**13. Related Party Transactions**

Effective January 1, 2014, the University entered into an eight-year operating lease agreement with a member of the Board of Trustees to lease apartments. The apartments are used by the University for off-campus student housing. The lease term expires on December 31, 2021, and requires annual payments of \$100,000.

# OTTAWA UNIVERSITY

## SCHEDULE OF ACTIVITIES BY UNIT AND CHANGES IN UNRESTRICTED NET ASSETS

For The Year Ended June 30, 2018  
(With Summarized Financial Information For 2017)

	Adult Professional & Online Studies	College & Advancement	Surprise Residential	University- Wide Administration	Total	2017 Total
<b>Revenues, Gains And Other Support</b>						
Tuition and fees	\$ 20,888,494	\$ 18,286,465	\$ 11,422,504	\$ —	\$ 50,597,463	\$ 35,991,213
Less University-funded scholarships	671,669	10,065,949	5,596,111	—	16,333,729	9,957,633
Net tuition and fees	20,216,825	8,220,516	5,826,393	—	34,263,734	26,033,580
Interest and dividends, net of fees	—	—	—	132,396	132,396	122,457
Net realized gains (losses) on investments	—	870,832	—	(804,720)	66,112	240,844
Net unrealized gains (losses) on investments	—	—	—	(83,049)	(83,049)	67,229
Private gifts, grants and bequests	250	2,839,210	7,323,869	—	10,163,329	5,903,378
Auxiliary enterprises	99,306	4,243,211	2,361,027	—	6,703,544	4,137,536
Other sources	27,278	837,823	289,764	149	1,155,014	614,206
Total revenues, gains and other support	20,343,659	17,011,592	15,801,053	(755,224)	52,401,080	37,119,230
Net assets released from restrictions	—	549,598	—	—	549,598	655,523
<b>Total Revenues, Gains, And Other Support</b>	<b>20,343,659</b>	<b>17,561,190</b>	<b>15,801,053</b>	<b>(755,224)</b>	<b>52,950,678</b>	<b>37,774,753</b>
<b>Expenses</b>						
Educational and general:						
Instruction	4,650,123	2,765,873	566,486	490,948	8,473,430	6,883,213
Academic support	338,570	391,773	165,754	1,841,006	2,737,103	2,594,633
Student services and activities	1,917,906	4,518,638	5,480,710	2,335,982	14,253,236	9,340,966
General institutional support	4,246,680	684,996	2,073,349	8,833,505	15,838,530	12,525,099
Operation and maintenance of plant	1,545	1,703,835	754,481	12,081	2,471,942	1,636,984
Total educational and general	11,154,824	10,065,115	9,040,780	13,513,522	43,774,241	32,980,895
Fundraising expenses	—	878,965	—	—	878,965	1,114,275
Auxiliary enterprises	13,681	3,384,407	2,165,905	617,715	6,181,708	4,247,476
Other expense	—	—	—	17,897	17,897	39,083
<b>Total Expenses</b>	<b>11,168,505</b>	<b>14,328,487</b>	<b>11,206,685</b>	<b>14,149,134</b>	<b>50,852,811</b>	<b>38,381,729</b>
<b>Change In Net Assets Before University-Wide</b>						
Allocations And Pledge Contribution	9,175,154	3,232,703	4,594,368	(14,904,358)	2,097,867	(606,976)
University-wide allocations	(5,730,847)	(5,016,980)	(3,133,819)	13,881,646	—	—
<b>Increase (Decrease) In Unrestricted Net Assets</b>	<b>\$ 3,444,307</b>	<b>\$ (1,784,277)</b>	<b>\$ 1,460,549</b>	<b>\$ (1,022,712)</b>	<b>2,097,867</b>	<b>(606,976)</b>
<b>Unrestricted Net Assets, Beginning Of Year</b>					<b>2,949,960</b>	<b>3,556,936</b>
<b>Unrestricted Net Assets, End Of Year</b>					<b>\$ 5,047,827</b>	<b>\$ 2,949,960</b>

# OTTAWA UNIVERSITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For The Year Ended June 30, 2018

Cluster/Program	Federal Agency	Pass-Through Identifying Number	Passed Through to Subrecipients	CFDA Number	Amount Expended
<b>Student Financial Aid Cluster</b>					
Federal Supplemental Education					
Opportunity Grants	U.S. Department of Education	—	—	84.007	\$ 166,888
Federal Perkins Loan Program	U.S. Department of Education	—	—	84.038	3,357,565
Federal Pell Grant Program	U.S. Department of Education	—	—	84.063	5,498,719
Federal Direct Loan Program	U.S. Department of Education	—	—	84.268	29,251,689
Federal Work Study Program	U.S. Department of Education	—	—	84.033	108,960
Teacher Education Assistance for College and Higher Education (TEACH) Grants	U.S. Department of Education	—	—	84.379	36,801
					<u>\$ 38,420,622</u>



# OTTAWA UNIVERSITY

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## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For The Year Ended June 30, 2018

1. This schedule includes the federal awards activity of Ottawa University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic consolidated financial statements.
2. No federal awards were provided to subrecipients.
3. Ottawa University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
4. The Federal Perkins Loan program is administered directly by Ottawa University, and balances and transactions related to this program are included in Ottawa University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of Federal Perkins Loans outstanding at June 30, 2018 is \$3,006,110.
5. As a part of our audit procedures, we have tested the University's compliance with their administration of the heightened cash monitoring payment method and notification requirements as required by the Department of Education for the year ended June 30, 2018. We noted no noncompliance with the requirements for heightened cash monitoring.

**Independent Auditors' Report On Internal  
Control Over Financial Reporting And On  
Compliance And Other Matters Based On  
An Audit Of The Financial Statements Performed In  
Accordance with *Government Auditing Standards***

Board of Trustees  
Ottawa University  
Ottawa, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Ottawa University (the University), which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [REDACTED]\*.

**Internal Control Over Financial Reporting**

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the University's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose Of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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**Independent Auditors' Report On Compliance For Each Major Federal  
Program And Report on Internal Control Over  
Compliance Required By The  
Uniform Guidance**

Board of Trustees  
Ottawa University  
Ottawa, Kansas

**Report on Compliance for Each Major Federal Program**

We have audited Ottawa University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the University's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001 through 2018-005. Our opinion on the major federal program is not modified with respect to these matters.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-005 that are considered to be significant deficiencies.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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# OTTAWA UNIVERSITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For The Year Ended June 30, 2018

### Section I - Summary Of Auditors' Results

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

#### Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☒ yes ☐ none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☒ yes ☐ no

Identification of major federal programs:

Cluster/Program	Federal Agency	CFDA Number	Amount Expended
<b>Student Financial Aid Cluster</b>			
Federal Supplemental Education Opportunity Grants	U.S. Department of Education	84.007	\$ 166,888
Federal Perkins Loan Program	U.S. Department of Education	84.038	3,357,565
Federal Pell Grant Program	U.S. Department of Education	84.063	5,498,719
Federal Direct Loan Program	U.S. Department of Education	84.268	29,251,689
Federal Work Study Program	U.S. Department of Education	84.033	108,960
Teacher Education Assistance for College and Higher Education (TEACH) Grants	U.S. Department of Education	84.379	36,801
			<u>\$ 38,420,622</u>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

# OTTAWA UNIVERSITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* For The Year Ended June 30, 2018

### Section II - Financial Statement Findings

None

### Section III - Federal Award Findings And Questioned Costs

**Finding 2018-001 – Significant Deficiency (Repeat Finding of 2016-001 and 2017-001; original finding year 2016)**

**Federal Award No. 84.268, 84.007, 84.033, 84.038, 84.063 & 84.379**

**U.S. Department Of Education**

**Student Financial Aid Cluster**

**Criteria:** According to the Federal Student Aid Handbook, Volume 2, Chapter 6, a University must confirm that the student has completed face-to-face or online counseling, or that the student has been mailed exit loan counseling material within 30 days of learning that the student has withdrawn or failed to participate in an exit counseling session.

**Condition:** In our nonstatistical sample of 47 students, it was noted for three individuals that exit counseling was mailed over the 30 day threshold after learning that the students left Ottawa University.

**Effect:** Students are not properly informed of their responsibilities for the repayment of loans received once leaving Ottawa University.

**Questioned Costs:** There were no questioned costs to report as the finding relates only to exit counseling and is not related to eligibility.

**Cause:** Ottawa University does not have proper processes and related controls in place to complete the exit counseling requirements within 30 days of the date of the student's exit from the University for all students who have exited the University upon expected graduation but for which graduation was not conferred until a later date.

**Recommendation:** The Financial Aid department should review and consider revisions to its processes and related controls in place to complete the exit counseling requirements for all students who have exited the University within 30 days of the date of the student's exit.



# OTTAWA UNIVERSITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)*

For The Year Ended June 30, 2018

**Views Of Responsible Officials/Corrective Action Plan (Unaudited):** The University concurs with the finding and recommendation. The Financial Aid Department has reviewed and, where appropriate, made updates to the processes used to identify students who should receive notification of the exit counseling requirement.

**Completion Date:** \_\_\_\_\_ \*

**Contact Person:** \_\_\_\_\_ \*

**Finding 2018-002 – Significant Deficiency (Repeat Finding of 2017-002; original finding year 2017)**

**Federal Award No. 84.268, 84.007, 84.033, 84.038, 84.063 & 84.379**

**U.S. Department Of Education**

**Student Financial Aid Cluster**

**Criteria:** According to the Federal Student Aid Handbook, Volume 2, Chapter 3, a university must report changes in a student's enrollment status, the effective date of the status, and an anticipated completion date to NSLDS. Changes in enrollment to less than half-time, graduated, or withdrawn must be reported within 60 days of the withdrawal determination date for schools that submit roster files to NSLDS. The withdrawal determination date for an official withdrawal is the date that the student begins the school's withdrawal process, or the date the student otherwise provides official notification to the school of the intent to withdraw.

**Condition:** In our nonstatistical sample of 46 students, it was noted for \_\_\_\_\_\* individuals who were official withdrawals that the status updates were not made to NSLDS within the 60 day requirement from the withdrawal determination date which is the date the student began the official withdrawal process.

**Effect:** Students may not enter repayment or their grace period within the appropriate timeframe from their exit from the University or students may not receive adequate notice of the timing of their grace period.

**Questioned Costs:** There were no questioned costs to report as the finding relates only to enrollment reporting is not related to eligibility.

**Cause:** Ottawa University does not have proper processes and related controls in place to complete the required updates to NSLDS for reporting changes in enrollment status within the 60 day requirement in relation to official withdrawals.

## OTTAWA UNIVERSITY

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### SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)* For The Year Ended June 30, 2018

**Recommendation:** The Financial Aid department should review and consider revisions to its processes and related controls in place to ensure completion of updates to NSLDS within the required 60 day timeframe for official withdrawals.

**Views Of Responsible Officials/Corrective Action Plan (Unaudited):** The University concurs with the finding and recommendation. The Financial Aid Department has reviewed and, where appropriate, made updates to the processes and controls used to ensure completion of updates to the NSLDS within the required 60 day timeframe for official withdrawals.

**Completion Date:**  \*

**Contact Person:**  \*

**Finding 2018-003 – Significant Deficiency**  
**Federal Award No. 84.268, 84.007, 84.033, 84.038, 84.063 & 84.379**  
**U.S. Department Of Education**  
**Student Financial Aid Cluster**

**Criteria:** According to the Federal Student Aid Handbook, Volume 4, Chapter 2, “Except in the case of loan funds made as part of a post-withdrawal disbursement, when Perkins Loan, Direct Loan or TEACH funds are being credited to a student’s account, the school must also notify the borrower in writing (paper or electronically) of the: anticipated date and amount of the disbursement; borrower’s right to cancel all or part of the loan or disbursement; and procedures for canceling a Direct Loan or Perkins Loan and the time by which the borrower must notify the school that he or she wishes to cancel the loan, grant, or loan or grant disbursement.” Due to the University obtaining affirmative confirmation, the notification must be sent “no earlier than 30 days before and no later than 30 days after crediting the student’s account.”

**Condition:** For the 40 students tested that received a loan during the Spring 2018 term, it was noted that Ottawa University did not retain documentation of sending letters/emails/notifications to four students of their anticipated date and amount of disbursement, rights to cancel, and procedures to cancel within 30 days prior to or 30 days after the actual disbursement/credit to the student’s account during the Spring 2018 term.

**Effect:** Students may not be properly notified of their rights and responsibilities with regard to loans being credited to their accounts.

**Questioned Costs:** Since students were not properly notified of their right to cancel, it is possible that eligible students would have chosen to cancel their disbursements/loans. It is not possible at this time to estimate the number of students that might have considered

# OTTAWA UNIVERSITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)*

For The Year Ended June 30, 2018

this option had they been properly notified; therefore we cannot estimate a monetary amount of questioned costs. No exceptions related to student eligibility were noted.

**Cause:** Ottawa University did not have proper processes and related controls in place to notify students (or parents) of the required information, within the proper timeframe, when crediting student accounts with loan funds.

**Recommendation:** The Financial Aid department should review and consider revisions to its processes and related controls in place to notify students (or parents) of the required information, within the proper timeframe, when crediting student accounts with loan funds.

**Views Of Responsible Officials/Corrective Action Plan (Unaudited):** The University concurs with the finding and recommendation. The Financial Aid Department has reviewed and, where appropriate, made updates to the processes used to notify students (or parents) of the required information, within the proper timeframe, when crediting student accounts with loan funds.

**Completion Date:**  \*

**Contact Person:**  \*

**Finding 2018-004 – Significant Deficiency**

**Federal Award No. 84.268, 84.007, 84.033, 84.038, 84.063 & 84.379**

**U.S. Department Of Education**

**Student Financial Aid Cluster**

**Criteria:** According to the Federal Student Aid Handbook, Volume 5, Chapter 2, “A school must return Title IV funds to the programs from which the student received aid during the payment period or period of enrollment as applicable, in the following order, up to the net amounts disbursed from each source: Unsubsidized Direct Loans (other than Direct PLUS Loans), Subsidized Direct Loans, Perkins Loans, Direct PLUS Loans, Federal Pell Grants for which a return of Title IV funds is required, FSEOG for which a return of Title IV funds is required, TEACH Grants for which a return of Title IV funds is required, and Iraq and Afghanistan Service Grant for which a return of Title IV funds is required.”

**Condition:** In our nonstatistical sample of 42 students, it was noted for one individual that required a return of Title IV funds that the student had their return taken from Subsidized Direct Loans when Unsubsidized Direct Loans were available.

**Effect:** Student may have loans that will accrue interest while still attending school, instead of loans that may not accrue interest until after they are finished attending.

## OTTAWA UNIVERSITY

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### SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)*

For The Year Ended June 30, 2018

**Questioned Costs:** None.

**Cause:** Ottawa University did not have proper processes and related controls in place to review for possible errors in the return of Title IV funds.

**Recommendation:** The Financial Aid department should review and consider revisions to its processes and related controls in place when preparing the return of Title IV funds.

**Views Of Responsible Officials/Corrective Action Plan (Unaudited):** The University concurs with the finding and recommendation. The Financial Aid Department has reviewed and, where appropriate, made updates to the processes used when preparing the return of Title IV funds.

**Completion Date:**  \*

**Contact Person:**  \*

#### **Finding 2018-005 – Significant Deficiency**

**Federal Award No. 84.268, 84.007, 84.033, 84.038, 84.063 & 84.379**

**U.S. Department Of Education**

**Student Financial Aid Cluster**

**Criteria:** According to the Student Financial Aid Cluster Compliance Supplement (2017), “Institutions are responsible for: (1) determining student eligibility; (2) verifying student data (when required); (3) calculating, as required, the amount of financial aid a student can receive; (4) completing and/or certifying parts of various loan applications and/or promissory notes; (5) drawing funds from the Federal Government and disbursing or delivering SFA funds to students directly or by crediting students’ accounts...”

**Condition:** For the 40 students tested, it was noted that Ottawa University did not disburse Pell and FSEOG awards to one individual, despite the student being eligible for, awarded, and accepting, both types of aid during the Spring 2018 Term.

**Effect:** Student may not have received all the aid they were eligible for during the Spring 2018 Term.

**Questioned Costs:** None

**Cause:** Ottawa University did not have proper processes and related controls in place to disburse all eligible aid to students who have accepted their awards.

## OTTAWA UNIVERSITY

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### SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)*

For The Year Ended June 30, 2018

**Recommendation:** The Financial Aid department should review and consider revisions to its processes and related controls in place to disburse all eligible aid to students who have accepted their awards.

**Views Of Responsible Officials/Corrective Action Plan (Unaudited):** The University concurs with the finding and recommendation. The Financial Aid Department has reviewed and, where appropriate, made updates to the processes used to disburse all eligible aid to students who have accepted their awards.

**Completion Date:** \*

**Contact Person:** \*

For Discussion  
Purposes Only

Corrective Action Plan 2018-001: The University \_\_\_\_\_ \*

Anticipated Completion Date: \_\_\_\_\_ \*

Contact Person: \_\_\_\_\_ \*

Corrective Action Plan 2018-002: The University \_\_\_\_\_ \*

Anticipated Completion Date: \_\_\_\_\_ \*

Contact Person: \_\_\_\_\_ \*

Corrective Action Plan 2018-003: The University \_\_\_\_\_ \*

Anticipated Completion Date: \_\_\_\_\_ \*

Contact Person: \_\_\_\_\_ \*

Corrective Action Plan 2018-004: The University \_\_\_\_\_ \*

Anticipated Completion Date: \_\_\_\_\_ \*

Contact Person: \_\_\_\_\_ \*

Corrective Action Plan 2018-005: The University \_\_\_\_\_ \*

Anticipated Completion Date: \_\_\_\_\_ \*

Contact Person: \_\_\_\_\_ \*

## OTTAWA UNIVERSITY

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For The Year Ended June 30, 2018

Finding No.	CFDA No.	Program	Condition	Current Year Status
2017-001 (Repeat of 2016-001; original year 2016)	84.268, 84.007, 84.033, 84.038, 84.063, & 84.379	Student Financial Aid Cluster	In the nonstatistical sample of 46 students, it was noted for two individuals that exit counseling was mailed over the 30 day threshold after learning that the students left Ottawa University.	See Repeat Finding 2018-001
2017-002	84.268, 84.007, 84.033, 84.038, 84.063, & 84.379	Student Financial Aid Cluster	In the nonstatistical sample of 46 students, it was noted for three individuals who were official withdrawals that the status updates were not made to NSLDS within the 60 day requirement from the withdrawal determination date which is the date the student began the official withdrawal process.	See Repeat Finding 2018-002