
OTTAWA UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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Independent Auditors' Report

Board of Trustees
Ottawa University
Ottawa, Kansas

Report On The Audit Of The Consolidated Financial Statements

Opinion

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, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis For Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities For The Audit Of The Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility For The Consolidated 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities For The Audit Of The Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RubinBrown LLP

October 27, 2022

OTTAWA UNIVERSITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

	June 30,	
	2022	2021
Cash and cash equivalents	\$ 3,445,583	\$ 4,649,788
Restricted cash and cash equivalents for government loan programs	467,842	830,433
Investments held by bond trustee under loan agreement	2,687,288	2,813,700
Accounts receivable:		
Students, net of allowance	2,481,049	2,486,965
Promises to give, net of allowance	4,516,022	5,883,668
Other	391,949	268,120
Student loans receivable	1,102,949	1,960,530
Asset held as available for sale	2,988,518	—
Inventories	389,653	329,258
Prepaid expenses	1,429,408	1,008,594
Investments	20,651,951	21,577,864
Right-of-use assets - operating leases, net	5,019,614	5,322,425
Other	43,650	43,650
	45,615,476	47,174,995
Property And Equipment:		
Land and land improvements	4,873,662	4,878,980
Buildings	113,528,190	113,461,284
Equipment	28,944,582	27,699,081
Vehicles	78,590	78,590
Leasehold improvements	2,822,405	2,984,678
Projects in progress	358,126	1,435,716
	150,605,555	150,538,329
Less: Accumulated depreciation and amortization	48,201,026	44,158,130
	102,404,529	106,380,199
	\$ 148,020,005	\$ 153,555,194

Liabilities And Net Assets

Liabilities		
Accounts payable	\$ 480,438	\$ 1,220,425
Accrued liabilities	2,098,438	2,893,390
Deferred revenues	6,665,168	7,706,304
Asset retirement obligations	117,088	112,073
Present value of annuities payable	64,634	64,596
Notes and bonds payable:		
Principal amount	105,668,384	106,134,742
Premium	812,978	855,439
Less: Unamortized debt issuance costs	2,137,109	2,296,760
Notes and bonds payable - less unamortized debt issuance costs	104,344,253	104,693,421
Refundable government loan programs	1,387,598	2,470,418
Operating lease liabilities	5,172,636	5,497,920
Total Liabilities	120,330,253	124,658,547
Net Assets		
Without donor restrictions	12,758,414	13,204,203
With donor restrictions	14,931,338	15,692,444
Total Net Assets	27,689,752	28,896,647
	\$ 148,020,005	\$ 153,555,194

OTTAWA UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES For The Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains And Other Support			
Student tuition and fees	\$ 70,551,929	\$ —	\$ 70,551,929
Less: University-funded scholarships	27,913,290	—	27,913,290
Net tuition and fees	42,638,639	—	42,638,639
Interest and dividends, net of fees	75,325	187,536	262,861
Net realized losses on investments	(8,757)	—	(8,757)
Net unrealized losses on investments	(478,998)	(848,186)	(1,327,184)
Change in value of funds held in trust by others	—	(273,043)	(273,043)
Private gifts, grants and bequests	4,793,293	390,679	5,183,972
Auxiliary enterprises	12,904,023	—	12,904,023
Higher education emergency relief funds	3,815,741	—	3,815,741
Other	3,600,016	—	3,600,016
Total Operating Revenues, Gains And Other Support	67,339,282	(543,014)	66,796,268
Net assets released from restrictions	218,092	(218,092)	—
Total Revenues, Gains And Other Support	67,557,374	(761,106)	66,796,268
Expenses			
Education and general:			
Instruction	9,293,662	—	9,293,662
Academic support	5,890,354	—	5,890,354
Student services and activities	20,652,892	—	20,652,892
Institutional support	20,787,461	—	20,787,461
Total education and general	56,624,369	—	56,624,369
Fundraising expenses	1,003,920	—	1,003,920
Auxiliary enterprises	10,374,874	—	10,374,874
Total Expenses	68,003,163	—	68,003,163
Change In Net Assets	(445,789)	(761,106)	(1,206,895)
Net Assets - Beginning Of Year	13,204,203	15,692,444	28,896,647
Net Assets - End Of Year	\$ 12,758,414	\$ 14,931,338	\$ 27,689,752

OTTAWA UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES For The Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains And Other Support			
Student tuition and fees	\$ 68,580,373	\$ —	\$ 68,580,373
Less: University-funded scholarships	24,585,694	—	24,585,694
Net tuition and fees	43,994,679	—	43,994,679
Interest and dividends, net of fees	75,651	103,135	178,786
Net realized losses on investments	(3,383)	—	(3,383)
Net unrealized gains on investments	11,820	1,713,876	1,725,696
Change in value of funds held in trust by others	—	243,421	243,421
Private gifts, grants and bequests	2,782,192	619,542	3,401,734
Auxiliary enterprises	11,793,030	—	11,793,030
Higher education emergency relief funds	3,595,974	—	3,595,974
Other	2,238,425	—	2,238,425
Total Operating Revenues, Gains And Other Support	64,488,388	2,679,974	67,168,362
Net assets released from restrictions	466,620	(466,620)	—
Total Revenues, Gains And Other Support	64,955,008	2,213,354	67,168,362
Expenses			
Education and general:			
Instruction	8,631,761	—	8,631,761
Academic support	6,679,682	—	6,679,682
Student services and activities	16,856,188	—	16,856,188
Institutional support	18,810,162	—	18,810,162
Total education and general	50,977,793	—	50,977,793
Fundraising expenses	820,103	—	820,103
Auxiliary enterprises	10,096,346	—	10,096,346
Total Expenses	61,894,242	—	61,894,242
Change In Net Assets	3,060,766	2,213,354	5,274,120
Net Assets - Beginning Of Year	10,143,437	13,479,090	23,622,527
Net Assets - End Of Year	\$ 13,204,203	\$ 15,692,444	\$ 28,896,647

OTTAWA UNIVERSITY

CONSOLIDATED STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2022	2021
Cash Flows From Operating Activities		
Change in net assets	\$ (1,206,895)	\$ 5,274,120
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized (gains) losses on investments	(198,119)	3,383
Net unrealized (gains) losses on investments	1,327,184	(1,725,696)
Depreciation and amortization	5,340,340	4,665,302
Amortization of debt issue costs included with interest expense	119,815	66,680
Loss on bond issue costs	967,273	—
Contributions restricted for investment	(369,716)	(523,449)
Change in value of funds held in trust by others	273,043	(243,421)
Actuarial loss on annuity obligations	12,371	12,276
Changes in:		
Accounts and other receivables, net	739,668	307,347
Promises to give, net	1,367,646	786,351
Inventories	(60,395)	19,536
Prepaid expenses	(420,814)	177,953
Other assets	—	22,351
Right-of-use assets - operating leases	—	799,719
Accounts payable and accrued liabilities	(1,296,118)	159,204
Deferred revenues	(1,041,136)	(1,046,856)
Operating lease liabilities	(325,284)	(624,224)
Net Cash Provided By Operating Activities	5,228,863	8,130,576
Cash Flows From Investing Activities		
Purchase of property and equipment	(4,284,183)	(41,876,404)
Purchase of investments	(1,041,195)	(1,809,660)
Proceeds from disposition of investments	565,000	1,228,058
Payments to annuitants	(12,333)	(12,463)
Change in investments and cash held by bond trustee	126,412	(2,687,981)
Net Cash Used In Investing Activities	(4,646,299)	(45,158,450)
Cash Flows From Financing Activities		
Payment of bond issuance costs	(927,437)	(1,180,838)
Contributions restricted for investment	369,716	523,449
Proceeds from notes and bonds payable	49,734,743	50,172,439
Payments on notes and bonds payable	(8,575,273)	(7,071,975)
Proceeds from line of credit	37,127,100	43,370,658
Payments on line of credit	(37,837,703)	(44,391,296)
Change in refundable government loan program	(1,082,820)	127,572
Payments to refinance long term debt	(40,957,686)	(4,090,570)
Net Cash Provided By (Used In) Financing Activities	(2,149,360)	37,459,439
Net Change In Cash And Cash Equivalents And Restricted Cash	(1,566,796)	431,565
Cash, Cash Equivalents And Restricted Cash - Beginning Of Year	5,480,221	5,048,656
Cash, Cash Equivalents And Restricted Cash - End Of Year	\$ 3,913,425	\$ 5,480,221
Supplemental Cash Flow Information		
Interest paid	\$ 4,874,520	\$ 2,948,893
Supplemental Schedule Of Noncash Operating And Investing Activities		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ —	\$ 1,332,972
Transfer of asset from fixed assets to held for sale	2,988,518	—
Fixed assets acquired with accounts payable	66,115	356,799
Fixed assets acquired through retainage payable	69,012	17,147

OTTAWA UNIVERSITY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2022

	Instruction	Academic Support	Student Services And Activities	Auxiliary Enterprises	Total Program Expenses	General Institutional Support	Fundraising	Total
Salaries and wages	\$ 6,041,048	\$ 1,881,577	\$ 9,489,932	\$ 295,145	\$ 17,707,702	\$ 5,416,951	\$ 618,680	\$ 23,743,333
Payroll taxes and employee benefits	955,742	354,748	2,053,360	80,714	3,444,564	2,310,935	128,381	5,883,880
Professional services	36,972	2,938,790	517,366	23,323	3,516,451	4,865,688	72,969	8,455,108
Maintenance, supplies and equipment	96,705	8,228	986,290	893,835	1,985,058	1,170,113	—	3,155,171
Utilities, insurance and taxes	91,572	841	513,610	882,035	1,488,058	1,307,911	18,350	2,814,319
Depreciation and amortization	587,762	197,163	2,512,431	1,320,314	4,617,670	722,670	—	5,340,340
Travel, hospitality and events	202,868	168,117	2,339,446	6,842	2,717,273	241,640	41,454	3,000,367
Interest expense	1,177,415	—	1,137,245	1,463,586	3,778,246	1,409,679	—	5,187,925
Advertising and marketing	418	1,230	1,514	—	3,162	1,374,952	—	1,378,114
Rent and occupancy	17,435	9,240	363,126	854,221	1,244,022	832,424	—	2,076,446
Dues, memberships and subscriptions	3,867	160,901	274,823	1,795	441,386	192,662	1,055	635,103
Supplies and office expenses	81,858	169,519	463,749	4,553,064	5,268,190	941,836	123,031	6,333,057
	\$ 9,293,662	\$ 5,890,354	\$ 20,652,892	\$ 10,374,874	\$ 46,211,782	\$ 20,787,461	\$ 1,003,920	\$ 68,003,163

OTTAWA UNIVERSITY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2021

	Instruction	Academic Support	Student Services And Activities	Auxiliary Enterprises	Total Program Expenses	General Institutional Support	Fundraising	Total
Salaries and wages	\$ 6,088,196	\$ 1,922,775	\$ 8,488,224	\$ 317,624	\$ 16,816,819	\$ 4,785,802	\$ 537,894	\$ 22,140,515
Payroll taxes and employee benefits	904,336	332,967	1,785,881	71,828	3,095,012	2,320,702	107,842	5,523,556
Professional services	22,191	3,886,743	392,460	10,746	4,312,140	3,695,096	30,487	8,037,723
Maintenance, supplies and equipment	117,164	1,888	942,389	1,009,886	2,071,327	1,009,420	—	3,080,747
Utilities, insurance and taxes	85,660	902	223,159	710,554	1,020,275	1,039,006	50,905	2,110,186
Depreciation and amortization	382,675	197,600	2,123,842	1,426,457	4,130,574	534,728	—	4,665,302
Travel, hospitality and events	33,695	48,479	1,300,925	1,707	1,384,806	160,471	5,506	1,550,783
Interest expense	889,876	—	807,376	1,324,126	3,021,378	1,460,834	—	4,482,212
Advertising and marketing	585	—	3,110	—	3,695	1,647,423	—	1,651,118
Rent and occupancy	22,935	2,023	279,261	1,273,594	1,577,813	1,081,751	—	2,659,564
Dues, memberships and subscriptions	3,338	149,669	236,224	3,983	393,214	192,302	1,055	586,571
Supplies and office expenses	81,110	136,636	273,337	3,945,841	4,436,924	882,627	86,414	5,405,965
	\$ 8,631,761	\$ 6,679,682	\$ 16,856,188	\$ 10,096,346	\$ 42,263,977	\$ 18,810,162	\$ 820,103	\$ 61,894,242

OTTAWA UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 And 2021

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, 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 Intercollegiate Athletics purposes.

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 its wholly owned subsidiary, Ottawa Investment Management Services (collectively referred to as the University). All significant interorganization balances and transactions have been eliminated in consolidation.

The financial statement presentation follows the requirements of the Financial Accounting Standards Board for not-for-profit organizations by presenting assets and liabilities within similar groups and classifying them in a way that provides relevant information about the interrelationships, liquidity, and financial flexibility. As a result, the University is required to report information regarding its financial position and activities according to the following classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the Board of Trustees.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the University or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use Of Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition, Student Accounts Receivable, Contract Liabilities And Deferred Revenue

The University's revenue is derived primarily from academic programs taught to students. Tuition and related fees are recognized as revenue over the course of the academic term or program for which it is earned. Non-tuition related revenue is recognized as services are performed or goods are delivered. Generally, the University bills students prior to the beginning of the semester, and students accounts receivable are due in full before classes begin.

If a student withdraws prior to the day of the academic term, the student is entitled to a full refund. If a student withdraws during the first week of the academic term, the student is entitled to an 80 percent refund, if during the second week a 60 percent refund, if during the third week a 40 percent refund and if during the fourth week a 20 percent refund. No refunds are awarded after the fourth week of the academic term.

The University has a different refund policy for the eight-week terms. If a student withdraws prior to the first day of the academic term, the student is entitled to a full refund. If a student withdraws during the first week of the academic term, the student is entitled to a 70 percent refund, if during the second week a 30 percent refund and no refunds are issued after the third week of the academic term.

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

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

OTTAWA UNIVERSITY

Notes To Consolidated Financial Statements (Continued)

From time to time the University will incur student credit balances and student deposits, which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are earned or refunded. As of June 30, 2022 and 2021, the University has a liability for refunds or deposits from students of \$3,055,274 and \$2,913,515, respectively, which is included in deferred revenue in the consolidated statement of financial position.

Deferred revenue also includes \$2,333,333 at June 30, 2022 and \$3,333,333 at June 30, 2021 related to an agreement between Ottawa University and the City of Surprise, Arizona, which provides for the City of Surprise, Arizona to have access to various facilities controlled by Ottawa University. The deferred revenue relates to prepayments made by the City of Surprise to Ottawa University, and the amounts will be recognized to revenue over the initial five-year term of the contract as the performance obligations are satisfied. Deferred revenue also includes amounts related to Ottawa University's food operation contracts which will be recognized to revenue over the term of the contract as the performance obligations are satisfied.

The composition of gross tuition revenue by segment for the years ended June 30 is as follows:

	<u>2022</u>	<u>2021</u>
Adult professional and online studies	\$ 20,495,377	\$ 23,522,206
College	23,571,223	22,414,722
Surprise residential	26,485,329	22,643,445
	<u>\$ 70,551,929</u>	<u>\$ 68,580,373</u>

All of the revenue associated with tuition is recognized over time.

The composition of auxiliary enterprise revenues by function for the years ended June 30 is as follows:

	<u>2022</u>	<u>2021</u>
Housing and meal plans	\$ 11,285,635	\$ 10,066,467
Books	184,397	156,401
Retail	375,277	319,069
Fines	28,655	249,199
Other	1,030,059	1,001,894
	<u>\$ 12,904,023</u>	<u>\$ 11,793,030</u>

The composition of revenue based on timing of revenue recognition related to auxiliary enterprises revenue for the years ended June 30 is as follows:

	<u>2022</u>	<u>2021</u>
Services transferred over time	\$ 11,285,635	\$ 10,066,467
Sales at point in time	1,618,388	1,726,563
	<u>\$ 12,904,023</u>	<u>\$ 11,793,030</u>

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, 2022 and 2021, cash equivalents consisted primarily of money market accounts with brokers. At June 30, 2022, the University's cash accounts exceeded the federally insured limits by approximately \$2,746,000.

Restricted Cash And Cash Equivalents

Restricted cash for government loan programs represents cash restricted for the Federal Perkins Loan Program.

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 net assets without donor restrictions. Other investment income, gains and losses are reflected in the consolidated statements of activities as with net assets with donor restrictions or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated 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. As of June 30, 2022 and 2021, the allowance for uncollectible accounts amounted to \$2,048,282 and \$1,532,117, respectively. 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. 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.

Promises To Give

Unconditional promises to give are recognized as support in the period the promises are received. Conditional promises to give, that is, those with a measurable performance or other barrier, are not recognized until the conditions on which they depend have been met.

An allowance for uncollectible promises to give is provided based upon the University's estimate of amounts which will ultimately not be collected. The estimate is based on historical collection experience and a review of the current status of existing promises to give. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual promises to give. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to promises to give.

From time to time, the University may receive promises to give that are to be collected over multiple years which are recorded at their net realizable value less a discount allowance to reflect the present value of future cash flows. Promises to give are reported net of a discount, at a rate of 2.5%, to the present value of future cash flows.

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 net realizable value.

Debt Issuance Costs

Costs incurred in connection with the issuance of debt of \$2,296,759 and \$2,478,558 have been capitalized and amortized using the straight-line method over the term of the debt for the years ended June 30, 2022 and 2021, respectively. GAAP requires debt issuance costs to be amortized using the effective-interest method however; the results between the straight-line method and effective-interest method are immaterial. In connection with the issuance of new 2022 Series A and B Bonds, \$927,000 of debt issuance costs were capitalized by the University in 2022. In 2021, \$1,180,838 of debt issuance costs were capitalized. Accumulated amortization amounted to \$341,449 and \$221,633 at June 30, 2022 and 2021, respectively. Amortization expense totaled \$119,815 and \$66,680 for the years ended June 30, 2022 and 2021, respectively. Amortization expense on the debt issuance costs is included with interest expense in the consolidated statement of activities.

Additionally, as a result of debt refinancing during 2022, debt issuance of \$967,273 were recorded as a loss on debt extinguishment and included in interest expense 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 year. 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 net assets without donor restriction unless the use of the assets is restricted by the donor. Leasehold improvements are included within property and equipment and are amortized on a straight-line basis over the estimated useful lives of the improvements or the lease, whichever is less. Depreciation and amortization expense for the years ended June 30, 2022 and 2021 amounted to \$5,037,529 and \$4,665,302, respectively.

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, 2022 or 2021.

Contributions And Support

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

Gifts of land, buildings, equipment and other long-lived assets and nonfinancial assets are reported as net assets without donor restriction unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as net assets with donor restriction. Expirations of restrictions resulting in reclassification of net assets with donor restriction as net assets without donor restriction are reported when the long-lived assets are placed in service. The University uses its discretion on when to sell any contributions of nonfinancial assets that are not restricted by the donor. Gifts of nonfinancial assets are included in contributions of nonfinancial assets. There were no gifts of nonfinancial assets at June 30, 2022 or 2021.

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 promises to give, that is, those with a measurable performance or other barrier, are not recognized until the conditions on which they depend have been met. As of June 30, 2022 and 2021, the University had approximately \$2,262,476 and \$6,078,000, respectively, of conditional promises to give.

For the years ended June 30, 2022 and 2021, one donor contributed 14% 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. The University's tax returns for tax years 2019 and later remain subject to examination by taxing authorities.

ASU 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cashflows arising from leases. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted improvements, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e. the comparatives under ASC 840 option.

The University adopted Topic 842 on July 1, 2020 (the effective date) using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. The University elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The University also elected to keep short-term leases with an initial term of 12 months or less off the Consolidated Statement of Financial Position. The University did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2020.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent were reclassified as a component of the ROU assets. The standard did not significantly affect the University's Consolidated Statements of Activities or Consolidated Statement of Cash Flows.

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, 2022 and 2021 was \$1,378,114 and \$1,651,118, respectively.

Asset Held As Available For Sale

During 2022, the University's facility in Phoenix, Arizona was made available for sale and is recorded at carrying value of \$2,988,000. At June 30, 2021, there were no assets held for sale. Management has evaluated the carrying value of the property, and based on information from potential buyers of the property, has determined that no impairment is required at June 30, 2022.

Expense Allocation

The consolidated statement of functional expenses presents expenses by functional and natural classification. Expenses directly attributable to a specific area of the University are reported as specific to that functional area. Depreciation expense is allocated based on a building and usage analysis. Interest expense on external debt is allocated to the functional categories, which have benefited from the proceeds of the external debt. Plant operations and maintenance represents space-related costs, which are allocated to the functional categories directly and/or based on the building and usage analysis. Other expenses have been allocated across multiple functions based on the nature of the expenditure.

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

Management evaluates subsequent events through the date the consolidated financial statements are available to be issued, which is the date of the Independent Auditors' Report.

2. Investments

Investments at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Investments At Fair Value		
Money market funds	\$ 11,360,491	\$ 10,136,503
Corporate bonds	1,211,965	1,548,711
Common stock	5,020,499	6,137,154
U.S. government agency securities	888,599	1,220,768
Beneficial interest in trusts	1,714,216	1,987,259
Mutual funds	184,527	192,824
	<u>20,380,297</u>	<u>21,223,219</u>
Investments At Cost/Net Realizable Value		
Oil/gas interests	35,000	35,000
Land	140,051	180,051
Cash surrender value of life insurance	96,603	139,594
	<u>271,654</u>	<u>354,645</u>
Total Investments	<u>\$ 20,651,951</u>	<u>\$ 21,577,864</u>

At June 30, 2022 and 2021, the University has investments of \$2,687,000 and \$2,813,700, respectively, which are money market mutual funds held by a bond trustee pursuant to a bond agreement.

For the years ended June 30, 2022 and 2021, investment return consisted of the following and is reflected as such in the consolidated statements of activities:

	<u>2022</u>	<u>2021</u>
Net realized losses on investments	\$ (8,757)	\$ (3,383)
Net unrealized gains (losses) on investments	(1,327,184)	1,725,696
Interest and dividends, net of fees	262,861	178,786
	<u>\$ (1,073,080)</u>	<u>\$ 1,901,099</u>

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 \$1,714,216 and \$1,987,259, which represents the fair value of the trust assets at June 30, 2022 and 2021, respectively. The change in value in funds held in trust by others for 2022 and 2021 was a loss of \$273,043 and a gain of \$243,421, respectively.

3. Promises To Give

Pledges receivable at June 30, 2022 and 2021 consisted of the following unconditional promises to give:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 1,860,808	\$ 2,556,190
Due in one to five years	<u>2,925,261</u>	<u>3,661,861</u>
	4,786,069	6,218,051
Less: present value discount	111,000	140,000
Less: allowance for uncollectible accounts	<u>159,047</u>	<u>194,383</u>
	<u>\$ 4,516,022</u>	<u>\$ 5,883,668</u>

At June 30, 2022 and 2021, \$587,581 and \$1,327,885, respectively, of gross promises to give were due from members of the University's Board of Trustees. At June 30, 2022 and 2021, 72% and 69%, respectively, of total promises to give were due from five and four donors, respectively.

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 \$1,387,598 and \$2,470,418 as of June 30, 2022 and 2021, 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 outstanding loan amounts represent less than 2 percent of total University assets as of June 30, 2022 and 2021.

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 not recorded an allowance for uncollectible accounts at June 30, 2022 and 2021. The University does not stop the accrual of interest until a loan is written off; therefore, the University has no loans on nonaccrual status. The loan receivable for Federal Perkins Loans due from students at June 30, 2022 and 2021 is \$1,102,949 and \$1,960,530, respectively.

OTTAWA UNIVERSITY

Notes To Consolidated Financial Statements (Continued)

The Federal Perkins Loan Program is winding down and no new loans were advanced to students after June 30, 2018.

The following tables represent the amounts past due under the University's student loan program as of June 30, 2022 and 2021:

	2022					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
FPL Program	\$ 40,174	\$ 8,567	\$ 399,674	\$ 448,415	\$ 654,534	\$ 1,102,949

	2021					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
FPL Program	\$ 23,549	\$ 53,016	\$ 951,760	\$ 1,028,325	\$ 932,205	\$ 1,960,530

5. Notes And Bonds Payable

At June 30, 2022 and 2021, notes and bonds payable consisted of the following:

	2022	2021
Revenue anticipation notes, Series 2022 (K)	\$ 6,000,000	\$ —
2022 Series A Bonds (L)	34,064,195	—
2022 Series B Bonds (M)	1,070,000	—
Revolving line of credit (N)	7,500,000	—
OUAZ Bond, Series 2020 (J)	38,525,000	38,525,000
USDA - Rural Loan (G)	18,509,189	17,301,409
Revolving line of credit (C)	—	8,210,603
Bridge loan (H)	—	1,400,000
Founders Hall Loan (I)	—	4,629,900
Revenue anticipation notes, Series 2021 (A)	—	6,000,000
Educational facilities revenue bonds, Series 2015 (B)	—	15,725,000
OUAZ Bond, Series A (D)	—	12,088,513
OUAZ Bond, Series B (E)	—	2,052,869
Notes payable (F)	—	201,448
	\$ 105,668,384	\$ 106,134,742

(A) Principal and interest at 5.75% due May 1, 2022, paid in full.

(B) 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. Bonds were paid off as of June 30, 2022.

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Notes To Consolidated Financial Statements (*Continued*)

- (C) At June 30, 2022, revolving line of credit of up to \$15,500,000; availability approximately \$15,500,000, based on the lesser of \$15,500,000 or the borrowing base, approximately \$16,600,000 at June 30, 2022. The borrowing base is determined by eligible accounts of the OIMS's assets in the Wealth Advisory Services Account. Principal balances maturing on September 16, 2022; interest is subject to change with the Prime Rate but no lower than 4.50%; rate was 4.50% on June 30, 2021, and interest is payable monthly. Line of credit was paid in full and terminated as of June 30, 2022.
- (D) 4.8% serial education facilities revenue bonds; interest payable monthly with principal maturing on the first of each month through 2045 in varying amounts starting November 1, 2020; collateralized by the Surprise O'Dell Athletic Complex. Bonds were issued for the purpose of refunding various debt holdings and reimbursing the University for capital improvements. Bonds were paid in full as of June 30, 2022.
- (E) 4.8% serial education facilities revenue bonds; interest payable monthly with principal maturing on the first of each month through 2038 in varying amounts starting December 1, 2018; collateralized by the Surprise O'Dell Athletic Complex. Bonds were issued for the purpose of refunding various debt holdings and reimbursing the University for capital improvements. Bonds were paid in full as of June 30, 2022.
- (F) Promissory note with principal balances maturing August 10, 2038 with an interest rate of 5.5%; monthly payments of principal and interest of \$1,521; collateralized by campus apartments. Note was paid in full as of June 30, 2022.
- (G) In June 2018, note payable for \$17,840,000 to the United States Department of Agriculture (USDA) for 35 year (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. Principal balance increased by \$1,207,780 during 2022 which was accrued interest that the USDA applied to principal as a result of a COVID-19 agreement.
- (H) Promissory note with a bank with principal balances maturing September 16, 2023 with an interest rate of 5.25%; annual principal payments of \$400,000 for one year and \$500,000 for two years starting July 1, 2020; collateralized by a donor's pledge. Debt was paid as of June 30, 2022.
- (I) Promissory note with a bank with principal balances maturing August 31, 2025 with an interest rate of 4.25%; annual principal and interest payments of \$32,376; collateralized by the Founders Hall building. Debt was paid as of June 30, 2022.
- (J) Series 2020 Bonds with terms maturing in varying dates through 2051 with interest rates varying from 5% to 5.5%. Interest payable every April 1st and October 1st, beginning April 2021; collateralized by mortgage on certain buildings and land. Bonds were issued for the purpose of purchasing buildings on the OUAZ campus and to pay off several leases.
- (K) Principal and interest at 5.75% due May 1, 2023.

OTTAWA UNIVERSITY

Notes To Consolidated Financial Statements (*Continued*)

- (L) 4.196% serial educational facilities revenue bonds; interest payable monthly with principal maturing on the first of each month through 2047 in varying amounts starting June 1, 2022; collateralized by certain buildings and land. Bonds were issued for the purpose of refunding various debt holdings and reimbursing the University for capital improvements.
- (M) 4.196% serial educational facilities revenue bonds; interest payable monthly through 2047 in varying amounts starting May 1, 2022 and principal maturing monthly in varying amounts starting June 1, 2024; collateralized by certain buildings and land. Bonds were issued for the purpose of refunding various debt holdings and reimbursing the University for capital improvements.
- (N) At June 30, 2022, revolving line of credit of up to \$15,500,000. Maturity of debt is March 2024, at which time any outstanding balance of principal and interest was set to become due. Interest rate is 1.75% plus the 30-day Bloomberg Short-Term Bank Yield Index. Interest payments are due monthly.

On May 25, 2021, the University obtained an additional \$3,500,000 line of credit with a bank maturing June 30, 2024. The interest rate is fixed at 3.95%. Any interest is payable monthly. As of June 30, 2022, the University terminated this line of credit.

Several of the notes and bonds include restrictive covenants which require the University to maintain certain financial covenants. As of June 30, 2022, the University was in compliance with restrictive covenants.

Aggregate annual maturities and sinking fund requirements of debt at June 30, 2022 are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 7,384,483
2024	9,145,244
2025	2,519,163
2026	1,651,455
2027	1,186,647
Thereafter	83,781,392
	<u>\$ 105,668,384</u>

The University incurred interest expense totaling \$5,187,925 and \$4,482,212 for the years ended June 30, 2022 and 2021, respectively.

6. Leases

The University determines if an arrangement is a lease or contains a lease at inception. Leases are classified as either operating or finance at the commencement date. The University maintains leases of buildings, land and vehicles. ROU assets and lease liabilities are recognized in the consolidated statement of financial position based on the present value of the future minimum lease payments over the lease term at commencement date. The ROU assets represent the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received. The University's leases generally have terms ranging from 2 to 65 years. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the term of the lease.

The lease terms utilized in determining ROU assets and lease liabilities include the noncancellable portion of the underlying leases along with renewal periods, only if it is reasonably certain that the option will be exercised. When determining if a renewal option is reasonably certain of being exercised, the factors considered, include but are not limited to, the cost of moving to another location, the cost of disruption of operations, the purpose or location of the leased asset and the terms associated with extending the lease. The lease terms may include options to extend the leases that the University is reasonably certain to exercise. The University has not included any termination penalties in its lease payments, nor shortened any lease terms related to options to terminate a lease.

As most leases do not provide an implicit discount rate, the University estimates an incremental borrowing rate based on the information available at the lease commencement date to determine the present value of the lease payments. The estimated incremental borrowing rate represents the estimated rate of interest that would have been charged to borrow an amount equal to the lease payments on a collateralized basis for a similar period of time.

The University's operating leases typically contain fixed rent escalations over the lease term, and the University recognizes expense for these leases on a straight-line basis over the lease term. The University recognizes the related lease expense on a straight-line basis and records the difference between the recognized lease expense and amounts payable under the lease as a component of the ROU asset.

Some of the University's leases include rent escalations based on inflation indexes. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses in the period in which they are incurred.

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Notes To Consolidated Financial Statements (Continued)

The University does not separate non-lease components of a contract from the lease components to which they relate for all classes of lease assets. The University has no material related-party leases or subleases. The University's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The University had operating lease costs of \$2,076,447 and \$2,659,565 for the years ended June 30, 2022 and 2021, respectively. This includes short-term leases and variable lease costs.

Other required lease information for the year ended June 30, 2022:

Other Information:

Weighted-average remaining term - operating leases	36.29
Weighted-average discount rate - operating leases	5.45%

Future maturities of operating lease liabilities as of June 30 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 1,052,393
2024	923,879
2025	418,673
2026	169,888
2027	146,548
Thereafter	9,419,473
	<u>12,130,854</u>
Less: present value discount	<u>6,958,218</u>
	<u>\$ 5,172,636</u>

Effective October 16, 2018 the University entered into a ten year lease agreement with the City of Surprise (the City) whereby the University subleases certain facilities including recreation and fitness centers, student union conference space and other space to the City. The University and the City can both mutually agree to extend the term of the lease agreement annually for up to ten successive one-year periods. The lease commenced during the year ending June 30, 2021 and the City paid the University a lump sum payment of \$5,000,000, which represents lease payments for the first five years of the lease term. As of June 30, 2022 and 2021, \$2,333,333 and \$3,333,333, respectively, of this advance lump sum payment is included in deferred revenues in the consolidated statement of financial position and is amortized to rental income over the term of the lease as noted in Note 1. During the years ended June 30, 2022 and 2021, rental income in connection with this lease was \$1,000,000, and included in Auxiliary enterprises in the consolidated statement of activities.

At June 30, 2022, the following future lease payments are expected to be collected:

<u>Fiscal Year Ending June 30,</u>	<u>Future Rental Collections</u>
2025	\$ 1,000,000
2026	1,000,000
2027	1,000,000
2028	1,000,000
2029	1,000,000
	<u>\$ 5,000,000</u>

7. Pension Plan

The University has a defined contribution retirement plan covering all regular full and part-time employees scheduled to work at least 20 hours per week. Contributions to the plan are invested on behalf of plan participants in a diversified menu of investments held at the Teachers Insurance and Annuity Association (TIAA). 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. The University's contributions to the plan were \$309,537 and \$144,114 for the years ended June 30, 2022 and 2021, respectively.

8. Net Assets With Donor Restrictions

At June 30, net assets with donor restriction are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Endowment earnings to be	\$ (528,411)	\$ 350,331
Programming grant funds	181,551	151,801
	<u>(346,860)</u>	<u>502,132</u>
Amounts with perpetual restrictions		
Trusts and annuities	1,714,216	1,987,259
Scholarships	12,248,158	11,918,143
Faculty chairs	624,301	624,301
Choral music program	691,523	651,822
Other	—	8,787
Total perpetual restrictions	<u>15,278,198</u>	<u>15,190,312</u>
Total net assets with donor restrictions	<u>\$ 14,931,338</u>	<u>\$ 15,692,444</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the years ended June 30, 2022 and 2021, releases of donor restrictions amounted to \$218,092 and \$466,620, respectively, which represents appropriation of endowment earnings.

Board-designated net assets amounted to \$6,980,489 and \$5,751,921 as of June 30, 2022 and 2021, respectively. Annually, the Board of Trustees appropriates portions of the board-designated endowment and donor-restricted endowments for scholarships and other operational needs. Appropriations of board-designated net assets for the years ended June 30, 2022 and 2021 were \$595,067 and \$333,846, respectively.

9. 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 maintains net assets held in perpetuity for (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 fund that is not classified in net assets held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA.

OTTAWA UNIVERSITY

Notes To Consolidated Financial Statements (*Continued*)

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 for the years ended June 30 was:

	2022			
	Endowment			Total
	Board- Designated	Earnings To Be Appropriated	Perpetual In Nature	
Donor-restricted endowment funds	\$ —	\$ (528,411)	\$ 13,563,982	\$ 13,035,571
Board-designated endowment funds	6,942,477	—	—	6,942,477
	<u>\$ 6,942,477</u>	<u>\$ (528,411)</u>	<u>\$ 13,563,982</u>	<u>\$ 19,978,048</u>

	2021			
	Endowment			Total
	Board- Designated	Earnings To Be Appropriated	Perpetual In Nature	
Donor-restricted endowment funds	\$ —	\$ 350,331	\$ 13,194,266	\$ 13,544,597
Board-designated endowment funds	5,751,921	—	—	5,751,921
	<u>\$ 5,751,921</u>	<u>\$ 350,331</u>	<u>\$ 13,194,266</u>	<u>\$ 19,296,518</u>

OTTAWA UNIVERSITY

Notes To Consolidated Financial Statements (Continued)

Changes in endowment net assets for the years ended June 30 was:

	2022			
	Board- Designated	Endowment Earnings To Be Appropriated/ (Underwater)	Perpetual In Nature	Total
Endowment assets, beginning of year	\$ 5,751,921	\$ 350,331	\$ 13,194,266	\$ 19,296,518
Investment return:				
Interest, dividends and realized gains	4,744	187,536	—	192,280
Net decrease	(479,787)	(848,186)	—	(1,327,973)
Total Investment Return	(475,043)	(660,650)	—	(1,135,693)
Contributions	2,260,666	—	369,716	2,630,382
Appropriation of endowment assets for expenditure	(595,067)	(218,092)	—	(813,159)
Endowment Assets, End Of Year	\$ 6,942,477	\$ (528,411)	\$ 13,563,982	\$ 19,978,048
	2021			
	Board- Designated	Endowment Earnings To Be Appropriated/ (Underwater)	Perpetual In Nature	Total
Endowment assets, beginning of year	\$ 6,041,662	\$ (1,000,060)	\$ 12,670,817	\$ 17,712,419
Investment return:				
Interest, dividends and realized gains	2,627	103,135	—	105,762
Net appreciation	14,228	1,713,876	—	1,728,104
Total Investment Return	16,855	1,817,011	—	1,833,866
Contributions	27,250	—	523,449	550,699
Appropriation of endowment assets for expenditure	(333,846)	(466,620)	—	(800,466)
Endowment Assets, End Of Year	\$ 5,751,921	\$ 350,331	\$ 13,194,266	\$ 19,296,518

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. Deficiencies of this nature exist in 212 donor-restricted endowment funds, which together have an original value of \$12,520,000, a current fair value of \$11,780,000 and a deficiency of \$740,000 as of June 30, 2022. These deficiencies of \$740,000 are included in unappropriated endowment earnings with donor restrictions as of June 30, 2022. As of June 30, 2021, deficiencies existed in 62 donor-restricted endowment funds, which together have an original value of \$2,621,721, a current fair value of \$2,714,281 at June 30, 2021 and a deficiency of \$92,560 at June 30, 2021. These deficiencies of \$92,560 are included in unappropriated endowment earnings with donor restrictions as of June 30, 2021.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. The University has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

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.

In a prior year, the University's Board of Trustees authorized a cumulative borrowing limit of \$1,550,000 from the board designated endowment assets to fund certain operating and capital activities of the University. During the years ended June 30, 2022 and 2021, there were no repayments of this borrowing from the board designated endowment. The cumulative outstanding borrowing from the board designated endowment is \$1,200,000 for both June 30, 2022 and 2021.

10. 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, 2022 and 2021:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 11,360,491	\$ —	\$ —	\$ 11,360,491
Mutual funds	184,527	—	—	184,527
Common stocks	5,020,499	—	—	5,020,499
U.S. government agency securities	—	888,599	—	888,599
Corporate bonds	—	1,211,965	—	1,211,965
Beneficial interest in trust	—	—	1,714,216	1,714,216
	<u>\$ 16,565,517</u>	<u>\$ 2,100,564</u>	<u>\$ 1,714,216</u>	<u>\$ 20,380,297</u>
Investments held by bond trustee				
Money market mutual funds	\$ 2,687,288	\$ —	\$ —	\$ 2,687,288

OTTAWA UNIVERSITY

Notes To Consolidated Financial Statements (*Continued*)

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 10,136,503	\$ —	\$ —	\$ 10,136,503
Mutual funds	192,824	—	—	192,824
Common stocks	6,137,154	—	—	6,137,154
U.S. government agency securities	—	1,220,768	—	1,220,768
Corporate bonds	—	1,548,711	—	1,548,711
Beneficial interest in trust	—	—	1,987,259	1,987,259
	<u>\$ 16,466,481</u>	<u>\$ 2,769,479</u>	<u>\$ 1,987,259</u>	<u>\$ 21,223,219</u>
Investments held by bond trustee				
Money market mutual funds	\$ 2,813,700	\$ —	\$ —	\$ 2,813,700

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 years ended June 30, 2022 or 2021.

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:

	Beneficial Interest In Assets Held
Balance - July 1, 2020	\$ 1,743,838
Change in value of funds held in trust by others	<u>243,421</u>
Balance - June 30, 2021	1,987,259
Change in value of funds held in trust by others	<u>(273,043)</u>
Balance - June 30, 2022	<u><u>\$ 1,714,216</u></u>

Changes in fair value for the year ended June 30, 2022, are presented in the consolidated statement of activities as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Change in value of funds held in trust by others	\$ —	\$ (273,043)	\$ (273,043)

Changes in fair value for the year ended June 30, 2021, are presented in the consolidated statement of activities as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Change in value of funds held in trust by others	\$ —	\$ 243,421	\$ 243,421

11. Liquidity And Availability Of Resources

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and a line of credit.

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Notes To Consolidated Financial Statements (*Continued*)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022 and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,445,583	\$ 4,649,788
Contributions for general expenditure due in one year or less	1,860,808	2,556,190
Accounts receivable, students and other	2,872,998	2,755,085
Payout on donor-restricted endowments for use over next 12 months	595,067	333,846
Payout on board-designated endowments for use over next 12 months	218,092	466,620
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,992,548</u>	<u>\$ 10,761,529</u>

The University's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The University's board-designated endowment of \$6,980,489 is subject to an annual spending rate of 5 percent as described in Note 9. Although the University does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the University's liquidity management plan, cash in excess of daily requirements is invested in a variety of investment vehicles. The long-term investments are managed by a third-party investment manager which employs the University's investment policies.

The University has operating lines of credit as described in Note 5. The available borrowing capacity under these lines of credit totaled to approximately \$8,000,000 as of June 30, 2022.

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statement of cash flows which identifies the sources and uses of the University's cash which shows positive cash from operating activities for the year ended June 30, 2022.

12. Risks And Uncertainties

The outbreak of 2019 coronavirus (COVID-19), which was recognized as a global pandemic by the World Health Organization, has prompted governmental entities, businesses, organizations, and Universities to implement preventative and protective measures, including how business activities are conducted. The pandemic has resulted in a widespread economic downturn and created significant uncertainty, volatility and disruption in financial and business activities. The extent of the pandemic's impact on the University's operations and financial condition will depend on future developments, which are uncertain, including, but not limited to, the duration and severity of the pandemic, the effects of the pandemic on the economy, the remedial actions and stimulus measures adopted by the federal government, and to what extent normal economic and business activities can resume.