

CAPITAL UNIVERSITY
Columbus, Ohio

FINANCIAL STATEMENTS
June 30, 2019 and 2018

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Independent Auditor's Report

To the Board of Trustees
Capital University
Columbus, Ohio

We have audited the accompanying financial statements of Capital University (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital University as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Meloney + Novotny LLC

Cleveland, Ohio
October 24, 2019

CAPITAL UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 5,145,796	\$ 4,748,870
Restricted cash	-	579,571
Accounts receivable		
Students, less allowance of \$884,395 and \$926,643 in 2019 and 2018, respectively	1,945,009	2,031,864
Other	899,335	931,761
Prepaid expenses and other assets	963,453	864,549
Pledges receivable	1,134,169	830,427
Student notes receivable, less allowance of \$105,500 in 2019 and 2018	3,859,780	4,559,716
Contributions receivable from remainder trusts	1,285,410	1,176,849
Beneficial interests in perpetual trusts	8,891,457	8,941,294
Investments	119,764,119	124,205,939
Land, buildings and equipment, less accumulated depreciation and amortization of \$120,390,735 and \$112,389,105 in 2019 and 2018, respectively	130,052,185	133,653,814
 Total assets	 \$ 273,940,713	 \$ 282,524,654
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 5,217,979	\$ 4,746,371
Accrued liabilities	4,017,090	4,392,273
Student advance deposits	360,372	344,302
Deferred tuition revenue	2,672,450	2,829,174
Agency funds held for others	216,069	269,254
Note, mortgage, and bond payable	1,262,172	1,348,293
Capital lease obligations payable	29,085,661	30,658,631
Annuities payable	604,774	670,633
Postretirement benefit obligation	1,049,003	1,093,552
Advances from government for student loans	5,263,804	5,168,370
Total liabilities	49,749,374	51,520,853
 Net assets		
Without donor restrictions	117,693,824	125,602,336
With donor restrictions	106,497,515	105,401,465
Total net assets	224,191,339	231,003,801
 Total liabilities and net assets	 \$ 273,940,713	 \$ 282,524,654

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF ACTIVITIES
Year ended June 30, 2019 with comparative 2018 totals

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
Revenue, gains and other support				
Student tuition and fees	\$ 97,790,038	\$ -	\$ 97,790,038	\$ 98,968,329
Unfunded student financial aid	(49,690,148)	-	(49,690,148)	(49,491,426)
Funded student financial aid	(1,923,653)	-	(1,923,653)	(1,707,854)
	46,176,237	-	46,176,237	47,769,049
Private gifts and grants	2,989,192	2,436,536	5,425,728	3,170,207
Government grants and contracts	184,228	1,105,761	1,289,989	1,243,596
Investment return appropriated for spending	1,099,547	3,148,500	4,248,047	4,081,524
Other	1,591,247	398,185	1,989,432	2,145,590
Auxiliary enterprises	14,113,257	-	14,113,257	13,831,236
Operating net assets released from restrictions	5,418,475	(5,418,475)	-	-
Total revenue	71,572,183	1,670,507	73,242,690	72,241,202
Expenses				
Salaries and wages	34,958,199	-	34,958,199	34,984,980
Employee benefits	12,334,033	-	12,334,033	11,833,690
Services, supplies and other operating expenses	14,754,856	-	14,754,856	15,127,525
Occupancy, utilities and maintenance	7,576,352	-	7,576,352	6,471,283
Depreciation and amortization	8,806,296	-	8,806,296	8,390,507
Interest expense	885,752	-	885,752	833,405
Total expenses	79,315,488	-	79,315,488	77,641,390
Change in net assets before other activities	(7,743,305)	1,670,507	(6,072,798)	(5,400,188)
Other activities				
Investment return, net of spending policy	(796,906)	(2,726,375)	(3,523,281)	3,230,735
Private gifts restricted for endowment	-	2,200,145	2,200,145	3,551,557
Actuarial change in annuity liability and maturities	(32,405)	(48,227)	(80,632)	(114,067)
Expenses related to TLS reunion	-	-	-	(312,268)
Postretirement benefit obligation related changes other than periodic costs	239	-	239	98,040
Gain on sale of assets	663,865	-	663,865	-
Contribution received in transfer of TLS net assets	-	-	-	55,068,724
Total other activities	(165,207)	(574,457)	(739,664)	61,522,721
Changes in net assets	(7,908,512)	1,096,050	(6,812,462)	56,122,533
Net assets at beginning of year	125,602,336	105,401,465	231,003,801	174,881,268
Net assets at end of year	\$ 117,693,824	\$ 106,497,515	\$ 224,191,339	\$ 231,003,801

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2018
Revenue, gains and other support			
Student tuition and fees	\$ 98,968,329	\$ -	\$ 98,968,329
Unfunded student financial aid	(49,491,426)	-	(49,491,426)
Funded student financial aid	(1,707,854)	-	(1,707,854)
	<u>47,769,049</u>	<u>-</u>	<u>47,769,049</u>
Private gifts and grants	1,628,627	1,541,580	3,170,207
Government grants and contracts	110,071	1,133,525	1,243,596
Investment return appropriated for spending	1,701,580	2,379,944	4,081,524
Other	1,709,173	436,417	2,145,590
Auxiliary enterprises	13,831,236	-	13,831,236
Operating net assets released from restrictions	4,639,045	(4,639,045)	-
	<u>71,388,781</u>	<u>852,421</u>	<u>72,241,202</u>
Expenses			
Salaries and wages	34,984,980	-	34,984,980
Employee benefits	11,833,690	-	11,833,690
Services, supplies and other operating expenses	15,127,525	-	15,127,525
Occupancy, utilities and maintenance	6,471,283	-	6,471,283
Depreciation and amortization	8,390,507	-	8,390,507
Interest expense	833,405	-	833,405
	<u>77,641,390</u>	<u>-</u>	<u>77,641,390</u>
Change in net assets before other activities	(6,252,609)	852,421	(5,400,188)
Other activities			
Investment return, net of spending policy	1,339,673	1,891,062	3,230,735
Reclassification of endowment net assets	(2,632,768)	2,632,768	-
Non-operating net assets released from restrictions	1,996,132	(1,996,132)	-
Private gifts restricted for endowment	-	3,551,557	3,551,557
Actuarial change in annuity liability and maturities	(37,573)	(76,494)	(114,067)
Expenses related to TLS reunion	(312,268)	-	(312,268)
Postretirement benefit obligation related changes other than periodic costs	98,040	-	98,040
Contribution received in transfer of TLS net assets	28,412,932	26,655,792	55,068,724
	<u>28,864,168</u>	<u>32,658,553</u>	<u>61,522,721</u>
Changes in net assets	<u>22,611,559</u>	<u>33,510,974</u>	<u>56,122,533</u>
Net assets at beginning of year, as restated	<u>102,990,777</u>	<u>71,890,491</u>	<u>174,881,268</u>
Net assets at end of year	<u>\$ 125,602,336</u>	<u>\$ 105,401,465</u>	<u>\$ 231,003,801</u>

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (6,812,462)	\$ 56,122,533
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	8,806,296	8,390,507
Amortization of debt issuance cost	11,525	11,525
Realized and unrealized gains on investments	1,484,440	(4,590,156)
Gifts for permanently restricted purposes	(2,200,145)	(3,551,557)
Gains on disposal of assets	(663,865)	-
Contribution received in transfer of TLS	-	(55,068,724)
Postretirement benefit obligation related changes other than periodic costs	(239)	(98,040)
Change in operating assets and liabilities		
Accounts receivable	119,281	(16,584)
Pledges receivable	(303,742)	(345,296)
Prepaid expenses and other assets	(98,904)	75,573
Contributions receivable from remainder trusts	(108,561)	19,739
Accounts payable and accrued liabilities	96,425	(1,598,748)
Student advance deposits	16,070	(28,081)
Deferred tuition revenue	(156,724)	28,253
Agency funds held for others	(53,185)	52,140
Annuities payable	(65,859)	(75,198)
Postretirement benefit obligation	(44,310)	(92,573)
Government advances	95,434	(307,446)
Net cash from operating activities	<u>121,475</u>	<u>(1,072,133)</u>
Cash flows from investing activities		
Capital expenditures, net	(5,291,245)	(3,272,945)
Net proceeds from sale of assets	750,443	-
Changes in notes receivable	699,936	234,066
Net proceeds from sale of investments	3,007,217	1,326,701
Net cash received in transfer of TLS net assets	-	2,118,061
Net cash from investing activities	<u>(833,649)</u>	<u>405,883</u>
Cash flows from financing activities		
Payments on long-term debt	(1,670,616)	(1,587,586)
Gifts for permanently restricted purposes	2,200,145	3,551,557
Net cash from financing activities	<u>529,529</u>	<u>1,963,971</u>
Net change in cash and cash equivalents	(182,645)	1,297,721
Cash and cash equivalents at beginning of year	<u>5,328,441</u>	<u>4,030,720</u>
Cash and cash equivalents at end of year	<u>\$ 5,145,796</u>	<u>\$ 5,328,441</u>
Cash paid for interest	\$ 874,227	\$ 820,880

See accompanying notes to financial statements.

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization: Capital University (the “University”), a private educational institution, derives its income from student tuition and fees, investments, gifts and grants, operation of residence and dining halls, and various related activities.

In November 2017, the boards of Capital University and Trinity Lutheran Seminary (the "Seminary") approved an agreement to unify the institutions as originally formed prior to their separation in 1959, and establish Trinity Lutheran Seminary at Capital University. In addition to the boards' approval, the union was also endorsed by the Association of Theological Schools, the Evangelical Lutheran Church in America, the Ohio Department of Higher Education and the Higher Learning Commission. The reunion became effective on January 1, 2018 through an asset transfer agreement that resulted in the transfer of the assets and specified assumed liabilities of the Seminary to the University.

As part of the reunion, the institutions petitioned the Franklin County Probate Court to: (1) modify the restrictions imposed on endowment funds to permit their transfer to Capital; (2) order that the historic gift value (corpus) of the Seminary's endowed funds be reset to the market value of the assets available as of the date of transfer with such values to be distributed proportionally across the individual funds that comprise the Seminary's endowment; and (3) order such other and further relief as the court deems just and equitable. The petition was granted in December 2017.

The following assets, liabilities, and net assets, at fair value, of Trinity Lutheran Seminary were transferred to the University on January 1, 2018:

ASSETS	
Cash and cash equivalents	\$ 1,227,061
Restricted cash	891,000
Accounts receivable	
Students, less allowance for doubtful accounts of \$14,000	489
Other	27,679
Note receivable, less allowance for doubtful accounts of \$40,000	33,452
Contributions receivable	307,696
Investments	21,707,655
Funds held in trust by others	3,891,481
Land and building	<u>27,930,000</u>
Total assets	56,016,513
LIABILITIES AND NET ASSETS	
Accounts payable	221,523
Accrued liabilities	194,600
Bond payable	<u>531,666</u>
Total liabilities	947,789
Net assets	
Without donor restrictions	28,412,932
With donor restrictions	26,655,792

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization (Continued):

The Seminary's operation for the six months ended June 30, 2018, and net assets as of June 30, 2018, are reflected in these financial statements.

The following is a summary of significant accounting policies followed in the preparation of the accompanying financial statements.

Basis of Presentation: Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor-imposed stipulations. The governing board has designated, from net assets without donor restrictions, net assets for general expenditures and board-designated endowment.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Also included in this category are net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Use of Estimates: Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The University considers financial instruments with a maturity of three months or less when purchased to be cash equivalents. Deposits in banks are insured by an agency of the federal government up to \$250,000 at June 30, 2019 and 2018.

Restricted Cash: Restricted cash represents funds maintained in an escrow account for the purposes of funding capital expenditures at Trinity Lutheran Seminary following the reunion with the University.

Investments: Investments are carried at fair value and investments received by gifts are recorded at fair value at the date of gift. Realized investment gains and losses are calculated and recorded on a first-in, first-out basis and represent the difference between the proceeds on sales of investments and their cost when acquired or fair value at the date of the gift. Investment return includes interest, dividends, and both realized and unrealized gains and losses.

Accounting principles require that net appreciation (both realized and unrealized) on endowment funds whose income is unrestricted as to use, be reported as net assets with donor restrictions until deemed appropriated by the University for spending. Accordingly, net realized and unrealized appreciation on endowment funds is classified in the accompanying financial statements as part of net assets with donor restrictions based on restrictions established by donors and state law.

The University endowment consists of assets which are separately invested to provide income to support education and related activities, either as a result of donor-imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return.

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued):

Alternative investments, for which there is no ready market, are valued at fair value as estimated by management. To estimate fair value, management may rely on valuations reported by the general partners of such investments and/or the University's independent investment advisor. Because of the inherent uncertainty of valuation in the absence of readily ascertainable market values, the estimated values of those investments may differ from the values that would have been used had a ready market existed for such investments or if the investments were realized, and the differences could be material. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis.

Trusts Held by Others: Contributions receivable from remainder trusts represent the present value of the estimated amounts to be received in the future by the University for charitable remainder trusts for which the University does not serve as the trustee and are reported at fair value based on the present value of the underlying payments. Beneficial interests in perpetual trusts represent the present value of the estimated income the University will receive in the future from perpetual trusts for which third parties serve as the trustees.

Accounts and Student Notes Receivable: Accounts receivable primarily consists of tuition and fee charges to students and are carried at face value, less an allowance for doubtful accounts. Interest is not charged by the University on student accounts receivable. Student notes receivable primarily includes amounts due under federally-funded loan programs. The University uses the allowance method to estimate uncollectible receivables in these two categories. The allowances are based on prior experience and management's analysis of specific receivables.

Land, Buildings, Equipment, and Depreciation and Amortization: Land, buildings, and equipment, including equipment under capital leases, are stated at cost at date of acquisition. The University typically capitalizes acquisitions that exceed \$5,000 and have a useful life greater than one year. Depreciation and amortization on physical plant and equipment is recorded on a straight-line basis beginning in the year following acquisition over the estimated useful life for each major category of assets. These estimated useful lives are summarized in the following table:

Improvements other than buildings	20 years
Real estate held for future expansion	20 years
Buildings	30 - 70 years
Building improvements	20 years
Equipment	3 - 10 years

The carrying value of the University's long-lived assets is reviewed to determine if facts or circumstances suggest that the assets may be impaired or that the remaining useful, depreciable life may need to be changed. The University considers internal and external factors related to each asset, including future asset utilization and business climate. If these factors indicate that the asset will not be recoverable, the carrying value will be adjusted down to the estimated fair value, if less than book value. As of June 30, 2019 and 2018, management believes no impairments existed.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Expiration of Donor-Imposed Restrictions: Contributions received are recorded as without donor restrictions or with donor restrictions depending on the absence or existence of any donor restrictions. The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. For the years ended June 30, 2019 and 2018, the University released \$5,418,475 and \$4,639,045, respectively, in restricted net assets for the educational and general purposes of the University.

Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed into service.

Other Activities: The University has defined other activities to include non-operating activities and infrequent events, as well as the following:

Investment return, net of spending policy: Endowment income and realized gains (losses) in excess of the spending policy and unrealized gains (losses) on endowments and other investments not available for current operations

Actuarial adjustment to split-interest agreements: Adjustments to split-interest liabilities on life income agreements resulting from changes in the life expectancy, discount rates and other assumptions.

Postretirement benefit obligation changes: This represents actuarial changes to the University's postretirement obligation other than periodic benefit costs.

Private gifts restricted for endowment: Represents gifts restricted by the donor or the board for purposes of the endowment.

Revenue Recognition: Revenue is recognized over the period during which related educational and other services are rendered. Student tuition and fees are recognized when earned over the period during which related services are rendered. Unearned student tuition and fees are reflected as deferred revenue. Funds from federal and state grants are reflected as deferred revenue until such funds are expended for the grant purpose.

Federal Income Tax: The Internal Revenue Service has ruled that Capital University is a tax-exempt educational institution under §501(a) of the Internal Revenue Code as an organization described in §501(c)(3).

Accounting principles generally accepted in the United States of America prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not to be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2019 or 2018.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Cash and cash equivalents, accounts receivable from students, and accounts payable approximate fair value because of the short maturity of these instruments. Student notes receivable consist primarily of student loans through a government loan program. The notes receivable are not readily marketable. The University has estimated their fair value to be the carrying value. Pledges receivable approximate fair value because of the present value discount included in the carrying amount. Beneficial interests in perpetual trusts approximate fair value because the receivables are based upon the fair value of the assets carried in the applicable trusts. Investments are carried at fair value based upon quoted market prices. The carrying amount of the annuity liabilities approximates fair value based on the life expectancies and the present value discount. The carrying value of accrued liabilities and deferred revenue approximates fair value due to the short-term nature of the obligations. The carrying values of all of the University's financial instruments approximated their fair values at June 30, 2019 and 2018, except the University's fixed rate debt obligations. The fair value of the University's fixed rate debt obligations is estimated based on the quoted market prices for the same or similar issues. The fair value of fixed rate debt obligations at June 30, 2019 and 2018 was approximately \$3,814,645 and \$3,832,100.

Reclassifications: Certain prior year amounts have been reclassified to be consistent with the presentation in the current year financial statements. These reclassifications had no effect on net assets or the changes in net assets. In addition, certain net assets have been reclassified to conform to changes in donor restrictions.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2019. Management has performed this analysis through October 24, 2018, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Invested cash	\$ 66,708	\$ 1,384,991
U.S. government and government agencies	315,774	2,852,906
Corporate bonds	136,509	3,139,801
Mutual funds - equities	720,454	74,640,240
Mutual funds - bonds	480,655	24,783,009
Exchange traded funds	6,424,131	-
Common trust funds	94,406,142	-
Hedge funds of funds	7,523,019	7,967,788
Private equity funds	<u>9,690,727</u>	<u>9,437,204</u>
	<u>\$ 119,764,119</u>	<u>\$ 124,205,939</u>

The composition of investment return is as follows:

	<u>2019</u>	<u>2018</u>
Investment income (interest and dividends)	\$ 2,690,469	\$ 3,107,040
Investment expenses	(481,263)	(384,937)
Net realized gain	5,560,396	1,114,225
Net unrealized (loss) gain	<u>(7,044,836)</u>	<u>3,475,931</u>
Total investment return	724,766	7,312,259
Investment return included in revenues	<u>(4,248,047)</u>	<u>(4,081,524)</u>
Investment return included in other activities	<u>\$ (3,523,281)</u>	<u>\$ 3,230,735</u>

(Continued)

NOTE 2 – INVESTMENTS (Continued)

Accounting principles define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the University's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of equity and bond mutual funds, U.S. government and government agency obligations, and most corporate bonds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Funds of funds investments have observable inputs and market activity that allow for pricing based on the underlying market prices of the items in the fund (market approach), adjusted information developed by management for historical and current performance of the underlying funds, liquidity and credit premiums required by a market participant (income approach) and financial trend analysis with respect to the overall fund compared to benchmark performance ratios. The University owns two hedge funds of funds that fall in this category and have the same manager. These managers have strategies which are: 1) to maximize risk-adjusted returns and achieve low correlation to the equity markets, and 2) to achieve superior risk-adjusted returns with low volatility and low correlation to both the equity and fixed income markets by investing in a diversified group of pooled investment vehicles. The funds may invest in investment vehicles domiciled both within and outside the United States. The fair values of the investments in this category have been measured at net asset value per share of the investments as reported by the manager as a practical expedient for the fair value. As such, these investments are excluded from the fair value hierarchy.

Funds can be redeemed within two months of written notice, provided the investor has owned the funds for more than one year, which the University has as of June 30, 2019. There were no unfunded commitments at June 30, 2019 and 2018.

For other investments for which there is no active market, generally referred to as "alternative investments", the University relies on the funds' reported net asset value as a practical expedient for the fair value. As such, these investments are excluded from the fair value hierarchy. Information such as historical and current performance of the underlying assets, cash flow projections, liquidity and credit premiums required by a market participant (income approach), and financial trend analysis with respect to the individual fund manager, are utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility. This includes the University's investments in private equity funds. Private equity funds include 21 separate funds managed by managers whose strategy is realization of long-term total returns by investing in a diversified group of pooled investment funds. Redemption policies of each of these funds do not allow the University to withdraw any portion of its capital accounts or redeem any shares prior to the termination of the fund without the consent of the fund managers, which is not expected to be granted. The funds are expected to terminate from 7 to 14 years from the University's June 30, 2019 fiscal year end. Currently, and through the funds' terminations, the University expects to receive periodic distributions from the liquidation of the funds' underlying assets. Unfunded commitments related to these investments were \$5,236,419 and \$6,776,392 at June 30, 2019 and 2018, respectively.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – INVESTMENTS (Continued)

The fair value of beneficial interests in perpetual trusts is based on quoted prices of the underlying assets that are held by trustees. Due to restrictions on these assets that do not allow the University redemption rights, fair value is deemed to be based on Level 3 inputs. The University owns a mortgage backed investment in a bond for which fair value is determined based on methods similar to alternative investments and that has limited trading activity (Level 3 inputs).

The fair value of the interest rate swap is based on the projected London Interbank Offered Rate (“LIBOR”) for the duration of the swap; values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument (Level 2 inputs).

Assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018, are summarized below:

	Fair Value Measurements Using Quoted Prices in			Total
	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2019:				
Assets				
Cash and cash equivalents	\$ 66,708	\$ -	\$ -	\$ 66,708
U.S. government and government agencies	315,774	-	-	315,774
Corporate bonds	136,509	-	-	136,509
Mutual funds - equities	720,454	-	-	720,454
Mutual funds - bonds	480,655	-	-	480,655
Exchange traded funds	6,424,131	-	-	6,424,131
Total assets in the fair value hierarchy	8,144,231	-	-	8,144,231
Funds measured at NAV:				
Common trust funds				94,406,142
Hedge funds of funds				7,523,019
Private equity funds				9,690,727
Total investments				119,764,119
Beneficial interests in perpetual trusts	-	-	8,891,457	8,891,457
Liabilities				
Interest rate swap	-	427,227	-	427,227

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – INVESTMENTS (Continued)

	Fair Value Measurements Using Quoted Prices in			Total
	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2018:				
Assets				
Cash and cash equivalents	\$ 1,384,991	\$ -	\$ -	\$ 1,384,991
U.S. government and government agencies	2,852,906	-	-	2,852,906
Corporate bonds	3,030,529	-	109,272	3,139,801
Mutual funds - equities	74,640,240	-	-	74,640,240
Mutual funds - bonds	24,783,009	-	-	24,783,009
Total assets in the fair value hierarchy	<u>106,691,675</u>	-	109,272	<u>106,800,947</u>
Funds measured at NAV:				
Hedge funds of funds				7,967,788
Private equity funds				9,437,204
Total investments				<u>124,205,939</u>
Beneficial interests in perpetual trusts	-	-	8,941,294	8,941,294
Liabilities				
Interest rate swap	-	13,614	-	13,614

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2018	\$ 8,941,294	\$ 109,272	\$ 9,050,566
Interest and dividend	-	-	-
Total gains or losses (realized/unrealized) included in earnings			
Other changes in fair value	-	(2,528)	(2,528)
Gains (losses)	181,207	-	181,207
Purchases	62,000	-	62,000
Sales and maturities	<u>(293,044)</u>	<u>(106,744)</u>	<u>(399,788)</u>
Ending balance, June 30, 2019	<u>\$ 8,891,457</u>	<u>\$ -</u>	<u>\$ 8,891,457</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – INVESTMENTS (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2017	\$ 5,286,858	\$ 125,842	\$ 5,412,700
Additions from TLS reunion	3,670,951	-	3,670,951
Interest and dividend	-	-	-
Total gains or losses (realized/unrealized) included in earnings			
Other changes in fair value	-	(6,610)	(6,610)
Gains (losses)	262,780	-	262,780
Purchases	-	-	-
Sales and maturities	(279,295)	(9,960)	(289,255)
Ending balance, June 30, 2018	\$ 8,941,294	\$ 109,272	\$ 9,050,566

The University records transfers in and/or out of the various levels as of the end of the respective reporting period.

NOTE 3 – PLEDGES RECEIVABLE

For the years ending June 30, 2019 and 2018, the University had unconditional promises to give totaling \$1,268,000 and \$909,126, respectively, on which management has determined that no allowance for uncollectible promises is necessary. Most unconditional promises are restricted for endowments and are due as follows as of June 30, 2019 and 2018:

	2019	2018
Gross:		
Less than one year	\$ 192,500	\$ 243,626
One to five years	800,500	600,500
More than five years	275,000	65,000
	1,268,000	909,126
Less: discount	(133,831)	(78,699)
	\$ 1,134,169	\$ 830,427

The amounts are recorded at the present value of future cash flows based on a discount rate of 5% for both periods that totaled \$133,831 and \$78,699 as of June 30, 2019 and 2018, respectively.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

The following is a summary of land, buildings, and equipment:

	<u>2019</u>	<u>2018</u>
Land	\$ 16,977,546	\$ 17,066,671
Improvements other than buildings	12,819,052	12,739,525
Buildings	124,066,555	124,333,930
Building improvements	38,869,221	37,028,403
Equipment	38,431,762	35,808,746
Library books	2,688,032	3,090,482
Law library books	15,297,992	15,042,770
Construction in progress	1,292,760	932,392
	<u>250,442,920</u>	<u>246,042,919</u>
Accumulated depreciation and amortization	<u>(120,390,735)</u>	<u>(112,389,105)</u>
	<u>\$ 130,052,185</u>	<u>\$ 133,653,814</u>

Contractual commitments remaining under ongoing and planned construction projects approximated \$152,442 and \$1,091,000 at June 30, 2019 and 2018, respectively.

NOTE 5 – SHORT-TERM BORROWINGS

The University has a \$10,000,000 unsecured line of credit agreement with a bank. Advances bear interest at LIBOR plus 2.15%. There were no draws during the years ended June 30, 2019 and 2018 and there were no outstanding balances at June 30, 2019 and 2018. The expiration date of the agreement is December 31, 2019.

NOTE 6 – NOTE, MORTGAGE, AND BOND PAYABLE

The University had the following notes, mortgage, and bond payable at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Note payable	\$ 62,133	\$ 65,091
Mortgage payable	743,373	776,536
Bond payable	<u>456,666</u>	<u>506,666</u>
	<u>\$ 1,262,172</u>	<u>\$ 1,348,293</u>

In October 2014, the University entered into a promissory note agreement for certain water line renovations on its main campus. The agreement is unsecured and principal is payable in annual installments of approximately \$3,000 over 26 years. There is no interest on the note.

In July 2016, the University entered into a mortgage agreement as a result of acquiring the president's house. The agreement is secured by the property and is payable in biannual installments (including interest at 2.950%) over 5 years with one principal and interest payment of \$702,234 due in June 2021.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6 – NOTE, MORTGAGE, AND BOND PAYABLE (Continued)

In November 2017, as part of the reunion between the University and Trinity Lutheran Seminary, the University assumed the bond obligation entered between the Seminary and Columbus-Franklin County Finance Authority in April 2015. The proceeds of the bond arrangement were used by the Seminary to implement an energy program that included a new, independent heating system and internet based building automation system. Repayment is to be made over a 12-year period from the original loan agreement through November 2026. Interest is fixed at 4.35%. The note is secured by the Seminary property at 2199 East Main Street. The reunion was completed on January 1, 2018 (Note 1).

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE

The University had the following capitalized lease obligations at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital University 2013 Project	\$ 3,230,000	\$ 3,350,000
Capital University 2015 Project	<u>25,948,059</u>	<u>27,412,554</u>
	29,178,059	30,762,554
Less: unamortized debt issuance cost	<u>(92,398)</u>	<u>(103,923)</u>
	<u>\$ 29,085,661</u>	<u>\$ 30,658,631</u>

On October 15, 2006, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission to refinance a construction loan, the 1996 and 2001 capitalized lease agreements, and to finance construction and improvements relating to the University’s campus master plan. The University’s lease serves as security for the Commission’s \$30,850,000 Higher Education Facility Variable Rate Revenue Bonds (Capital University 2006 Project).

On April 1, 2013, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission to refinance a loan on an apartment building adjacent to its main campus to use for student housing. The University’s lease serves as security for the Commission’s \$3,970,000 Higher Education Facility Fixed Rate Revenue Bonds (Capital University 2013 Project). In the event of University default on its obligations, the Project assets that were acquired with the bond proceeds could be possessed by the trustee of the bonds. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with a bank.

On May 1, 2015, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission to refinance the 2006 capitalized lease agreements and to finance construction of a new academic building. The University’s lease serves as security for the Commission’s \$30,780,000 Higher Education Facility Variable Rate Revenue Drawdown Bonds (Capital University 2015 Project). In the event of University default on its obligations, the Project assets that were acquired with the bond proceeds could be possessed by the trustee of the bonds. The University has provided a general pledge of its revenues as collateral for the 2015 Bonds. The interest rate on the 2015 Bonds is calculated at 70% of LIBOR (2.40% and 2.09% at June 30, 2019 and 2018, respectively) plus 85 basis points. The variable rate at June 30, 2019 and 2018 was 2.53% and 2.31%, respectively. The obligation is due December 1, 2031 with an interest rate reset date of May 2, 2022. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with a bank.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

At June 30, 2019, future principal payments by year and in the aggregate under the capital lease obligations consist of the following:

2020	\$ 1,646,685
2021	1,719,015
2022	1,791,499
2023	1,914,129
2024	1,986,912
After 2024	<u>20,119,819</u>
	<u>\$ 29,178,059</u>

The cost and accumulated amortization of the assets under the capital leases are as follows:

	<u>2019</u>	<u>2018</u>
Cost	\$ 81,389,790	\$ 81,389,790
Accumulated amortization	<u>(33,894,635)</u>	<u>(31,306,494)</u>
	<u>\$ 47,495,155</u>	<u>\$ 50,083,296</u>

The interest rate on the 2013 Project lease for the years ended June 30, 2019 and 2018 was 2.05%. Total interest and fees paid and expensed under this lease for the years ended June 30, 2019 and 2018, was \$68,304 and \$70,782, respectively.

The average interest rate on the 2015 Project lease for the years ended June 30, 2019 and 2018 was 2.5% and 2.3%, respectively. Total interest and fees paid and expensed under the lease for the year ended June 30, 2019 and 2018 was \$668,101 and \$538,646, respectively.

The University also has agreed to certain financial and operating covenants with which the University has complied.

NOTE 8 – INTEREST RATE SWAP AGREEMENT

As part of a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into a future interest rate swap agreement for a portion of its 2015 variable rate debt. In conjunction with the refinancing of the 2006 Bonds and issuance of the 2015 Bonds, on April 7, 2015, the University entered into a swap agreement with an effective date of July 3, 2017 to exchange the difference between a fixed 2.3% interest rate and a variable-rate interest rate indexed to 70% of LIBOR and calculated on an original notional value of \$14,000,000. The future contract has a termination date of December 1, 2031 with an early termination date of May 2, 2022. As of June 30, 2019 and 2018, the University recorded unrecognized gain (loss) on the position of \$(413,613) and \$440,845, respectively, that is included in Investment return in the Statements of Activities. The fair value of \$(427,227) and \$(13,614) as of June 30, 2019 and 2018, respectively, is included in Accrued liabilities in the Statement of Financial Position.

The University is exposed to credit loss in the event of nonperformance by the counterparty; however, the University does not anticipate nonperformance by the counterparty.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 9 – FINANCIAL ASSETS AND LIQUIDITY

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

	<u>2019</u>	<u>2018</u>
Financial Assets		
Cash and cash equivalents	\$ 5,145,796	\$ 5,328,441
Notes and accounts receivable	6,704,124	7,523,341
Pledges receivable	1,134,169	830,427
Contributions receivable from Remainder trusts	1,285,410	1,176,849
Beneficial interest in perpetual trusts	8,891,457	8,941,294
Long-term investments	<u>119,764,119</u>	<u>124,205,939</u>
Financial Assets, at year-end	<u>\$ 142,925,075</u>	<u>\$ 148,006,291</u>
Less those not available for general expenditures within one year:		
Notes and accounts receivable collectible beyond one year	\$ (3,859,780)	\$ (4,559,716)
Pledges receivable restricted by donor	(1,117,169)	(820,427)
Donor-restricted endowment funds	(81,018,032)	(80,663,180)
Board-designated endowment funds	(12,638,466)	(13,864,163)
Investments held in trust and annuity reserves	<u>(11,410,522)</u>	<u>(11,393,512)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 32,881,106</u>	<u>\$ 36,705,293</u>

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has an unsecured line of credit in the amount of \$10,000,000, which it could draw upon. Additionally the University has a board-designated endowment of \$13,251,705 as of June 30, 2019. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

NOTE 10 – EXPENSES BY BOTH NATURE AND FUNCTION

Expenses are presented below by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Certain categories of expenses are attributable to one or more functions of the University. These expenses include depreciation and amortization, interest, information technology and facilities operation and maintenance. Depreciation expense is allocated based on square footage occupancy. Interest expense is allocated to the functional categories that have benefited from the proceeds of the related debt. Facilities operation and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. Costs of other categories were allocated on the basis of estimates of time and effort.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 10 – EXPENSES BY BOTH NATURE AND FUNCTION (Continued)

Functional expenses by natural classification for the year ended June 30, 2019:

	Program Activities	Supporting Activities			Total Expense
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salary and wages	\$ 26,576,902	\$ 4,966,136	\$ 1,328,589	\$ 2,086,572	\$ 34,958,199
Employee benefits	9,484,204	1,774,675	292,791	782,363	12,334,033
Services, supplies and other operating expenses	9,751,636	4,267,892	618,117	117,211	14,754,856
Occupancy, utilities and maintenance	279,325	19,169	7,235	7,270,623	7,576,352
Depreciation and amortization	8,410,013	352,252	44,031	-	8,806,296
Interest expense	845,893	35,430	4,429	-	885,752
	<u>55,347,973</u>	<u>11,415,554</u>	<u>2,295,192</u>	<u>10,256,769</u>	<u>79,315,488</u>
Facilities operation and maintenance	<u>9,795,213</u>	<u>410,271</u>	<u>51,285</u>	<u>(10,256,769)</u>	<u>-</u>
Total expenses	<u>\$ 65,143,186</u>	<u>\$ 11,825,825</u>	<u>\$ 2,346,477</u>	<u>\$ -</u>	<u>\$ 79,315,488</u>

Functional expenses by natural classification for the year ended June 30, 2018:

	Program Activities	Supporting Activities			Total Expense
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salary and wages	\$ 26,746,425	\$ 5,774,466	\$ 1,162,220	\$ 1,301,869	\$ 34,984,980
Employee benefits	8,768,036	2,067,822	432,228	565,604	11,833,690
Services, supplies and other operating expenses	7,519,560	4,957,525	266,531	2,383,909	15,127,525
Occupancy, utilities and maintenance	1,761,828	61,266	-	4,648,189	6,471,283
Depreciation and amortization	8,012,934	377,573	-	-	8,390,507
Interest expense	795,902	37,503	-	-	833,405
	<u>53,604,685</u>	<u>13,276,155</u>	<u>1,860,979</u>	<u>8,899,571</u>	<u>77,641,390</u>
Facilities operation and maintenance	<u>8,212,295</u>	<u>602,781</u>	<u>84,495</u>	<u>(8,899,571)</u>	<u>-</u>
Total expenses	<u>\$ 61,816,980</u>	<u>\$ 13,878,936</u>	<u>\$ 1,945,474</u>	<u>\$ -</u>	<u>\$ 77,641,390</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 11 – PENSION PLAN

The University contributed \$2,640,423 and \$2,549,535 during the years ended June 30, 2019 and 2018, respectively, to a Section 403(b) tax sheltered annuity arrangement for eligible members of the faculty and staff. The benefits provided are on a defined contribution method based on a percentage of compensation.

NOTE 12 – POSTRETIREMENT BENEFIT OBLIGATION

The University provides certain healthcare benefits to retirees who were fulltime employees and completed 10 years of service and reached age 59 ½. Employees hired on or after January 1, 2008 are not eligible for this benefit. Eligible retirees and their electing spouses are covered under the University's self-insured medical plan until the retiree reaches age 65. Surviving spouses are not covered. The premiums are assumed to be the actuarial equivalent of claims and administrative expenses and are used as the basis for the liability calculation.

Prior to July 1, 2005, retirees were not required to pay towards the cost of single retiree coverage, however were required to pay 50% of the additional premium for spousal coverage. After July 1, 2005, all existing and future retirees are required to pay the same premium, depending on coverage chosen, as active employees. Employer contributions are consistent with expected benefit payments.

The following table sets forth the funded status and amounts recognized in the statement of financial position at June 30:

	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation		
Accumulated benefit obligation	\$ (1,049,003)	\$ (1,093,552)
Fair value of plan assets	<u> -</u>	<u> -</u>
Funded status at June 30	<u>\$ (1,049,003)</u>	<u>\$ (1,093,552)</u>

The following table sets forth the activities related to this obligation for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Accrued benefit cost		
Beginning of year balance	\$ (1,093,552)	\$ (1,284,165)
Interest cost of on projected plan	(46,476)	(51,367)
Service cost on projected plan	<u>(32,036)</u>	<u>(37,434)</u>
Net periodic pension cost	(78,512)	(88,801)
Employer benefit payments	122,822	181,374
Postretirement benefit obligation related changes other than periodic cost	<u> 239</u>	<u> 98,040</u>
Accrued postretirement liability recognized in the statement of financial position	<u>\$ (1,049,003)</u>	<u>\$ (1,093,552)</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 12 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

Net periodic pension expenses for the year ending June 30, 2020 are expected to be \$33,272. Contributions expected to be made next year are approximately \$99,357. The amount of the net gain or (loss) that has been recognized in net assets but not as a component of pension expense is approximately \$(324,229) and \$(366,917) at June 30, 2019 and 2018, respectively.

Assumptions used to determine the actuarial present value of the accumulated postretirement benefit obligation and net periodic pension costs were as follows at June 30:

	<u>2019</u>	<u>2018</u>
Discount rate	3.65%	4.25%
Healthcare cost trend rate:		
Current year	9.00	9.00
Subsequent year	8.00	8.00
Ultimate trend rate	5.00	5.00
Year reached	2023	2022

Future benefit payments are projected as follows:

2020	\$ 99,357
2021	111,785
2022	93,907
2023	104,184
2024	114,295
2025-2029	519,390

The effects of a one percent change in the assumed health care cost trend rate in each year are summarized as follows:

	<u>2019</u>	<u>2018</u>
Effect of an increase		
Accumulated postretirement benefit obligation	\$ 60,172	\$ 61,819
Service cost and interest cost	50,048	5,637
Effect of an decrease		
Accumulated postretirement benefit obligation	(55,401)	(56,817)
Service cost and interest cost	(4,612)	(5,136)

NOTE 13 – NET ASSETS

Net assets without donor restrictions as of June 30, 2019 and 2018 comprise the following:

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions:		
Undesignated	\$ 4,380,249	\$ 10,531,843
Board designated endowment	13,251,705	13,864,163
Federal loan program funds	771,434	781,011
Designated - annuity reserves	881,378	931,163
Net investment in property and equipment	<u>98,409,058</u>	<u>99,494,156</u>
	<u>\$ 117,693,824</u>	<u>\$ 125,602,336</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 13 – NET ASSETS (Continued)

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Net Assets With Donor Restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	\$ 1,538,061	\$ 2,340,226
Academic, Student programs and support	7,104,632	5,507,620
Capital additions	<u>1,687,725</u>	<u>860,714</u>
	<u>10,330,418</u>	<u>8,708,560</u>
Subject to passage of time:		
Contributions receivable from third party trusts	695,347	692,527
Split interest agreements	<u>1,078,422</u>	<u>931,925</u>
	<u>1,773,769</u>	<u>1,624,452</u>
Subject to the University's spending policy and appropriation:		
Accumulated gains and term endowments	13,380,621	16,195,953
Endowment funds restricted in perpetuity	<u>71,139,421</u>	<u>68,912,200</u>
	<u>84,520,042</u>	<u>85,108,153</u>
Not subject to spending policy and appropriation:		
Perpetual trusts held by others	8,891,457	8,941,294
Loan funds	1,001,532	1,011,843
Annuity funds	<u>(19,703)</u>	<u>7,163</u>
	<u>9,873,286</u>	<u>9,960,300</u>
 Total net assets with donor restrictions	 <u>106,497,515</u>	 <u>105,401,465</u>
	 <u>\$ 224,191,339</u>	 <u>\$ 231,003,801</u>

NOTE 14 – ENDOWMENT COMPOSITION

The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. In addition, the endowment also includes beneficial interests in perpetual trusts. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 – ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of June 30, 2019:

	With Donor Restrictions				<u>Total Funds</u>
	<u>Without Donor Restrictions</u>	<u>Original Gift Amount</u>	<u>Accumulated Gains (Losses)</u>	<u>Total With Donor Restrictions</u>	
Donor-restricted funds	\$ -	\$ 70,774,497	\$ 13,380,621	\$ 84,155,118	\$ 84,155,118
Board-designated funds	13,251,705	-	-	-	13,251,705
Beneficial interest in perpetual trusts	-	8,891,457	-	8,891,457	8,891,457
	<u>\$ 13,251,705</u>	<u>\$ 79,665,954</u>	<u>\$ 13,380,621</u>	<u>\$ 93,046,575</u>	<u>\$ 106,298,280</u>
Endowment net assets, beginning of year	\$ 13,864,163	\$ 77,285,521	\$ 16,195,953	\$ 93,481,474	\$ 107,345,637
Investment return					
Investment income, net	279,622	-	1,547,651	1,547,651	1,827,273
Net appreciation (realized and unrealized gain)	<u>(318,909)</u>	<u>-</u>	<u>(1,037,907)</u>	<u>(1,037,907)</u>	<u>(1,356,816)</u>
	(39,287)	-	509,744	509,744	470,457
Change in beneficial interest in perpetual trusts	-	(111,837)	-	(111,837)	(111,837)
Contributions	58,679	2,492,270	-	2,492,270	2,550,949
Appropriation of endowment assets for expenditure	<u>(631,850)</u>	<u>-</u>	<u>(3,325,076)</u>	<u>(3,325,076)</u>	<u>(3,956,926)</u>
	<u>\$ 13,251,705</u>	<u>\$ 79,665,954</u>	<u>\$ 13,380,621</u>	<u>\$ 93,046,575</u>	<u>\$ 106,298,280</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 14 – ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses)	Total With Donor Restrictions	
Donor-restricted funds	\$ -	\$ 68,344,227	\$ 16,195,953	\$ 84,540,180	\$ 84,540,180
Board-designated funds	13,864,163	-	-	-	13,864,163
Beneficial interest in perpetual trusts	-	8,941,294	-	8,941,294	8,941,294
	<u>\$ 13,864,163</u>	<u>\$ 77,285,521</u>	<u>\$ 16,195,953</u>	<u>\$ 93,481,474</u>	<u>\$ 107,345,637</u>
Endowment net assets, beginning of year	\$ 16,580,182	\$ 49,005,453	\$ 12,316,993	\$ 61,322,446	\$ 77,902,628
Investment return					
Investment income, net	307,829	-	1,492,345	1,492,345	1,800,174
Net appreciation (realized and unrealized gain)	539,844	-	2,634,629	2,634,629	3,174,473
	847,673	-	4,126,974	4,126,974	4,974,647
Change in beneficial interest in perpetual trusts	-	(16,515)	-	(16,515)	(16,515)
Contributions	54,910	3,125,497	-	3,125,497	3,180,407
Appropriation of endowment assets for expenditure	(1,009,839)	-	(2,363,285)	(2,363,285)	(3,373,124)
Transfer of endowment net asset for reinvestment	24,005	169,141	-	169,141	193,146
Reclassification of endowment net assets	(2,632,768)	517,497	2,115,271	2,632,768	-
TLS endowment asset contribution at reunion	-	24,484,448	-	24,484,448	24,484,448
	<u>\$ 13,864,163</u>	<u>\$ 77,285,521</u>	<u>\$ 16,195,953</u>	<u>\$ 93,481,474</u>	<u>\$ 107,345,637</u>

The Board of Trustees of the University interprets the Ohio Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) to require consideration (except as otherwise provided by the donor in a gift instrument) of the following factors, if relevant, in making management and investment decisions for donor restricted endowment funds:

- (a) General economic conditions
- (b) The possible effect of inflation or deflation
- (c) The expected tax consequence, if any, of investment decisions or strategies
- (d) The role that each investment or course of action plays within the overall investment portfolio of the fund
- (e) The expected total return from income and the appreciation of investments
- (f) Other resources of the institution

(Continued)

NOTE 14 – ENDOWMENT COMPOSITION (Continued)

- (g) The need of the institution and of the fund to make distributions and preserve capital
- (h) An asset's special relationship or special value, if any, to the charitable purpose of the institution

Management and investment decisions about individual assets shall be made not in isolation but rather in the context of the institution's portfolio of investments as a whole and as part of an investment strategy that has risk and return objectives reasonably suited to the fund and to the institution. The institution will diversify investments unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.

Absent explicit donor stipulation to the contrary, the institution shall classify as permanently restricted net assets the original value of the gifts donated to the permanent endowment, but such classification does not limit the expenditures from the endowment fund only to income. The portion of the fund's value spendable annually for the donor-designated purpose is to be determined, from time to time, by the Board of Trustees, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering, if relevant, the following factors:

- (a) The duration and preservation of the endowment fund
- (b) The purposes of the institution and the endowment fund
- (c) General economic conditions
- (d) The possible effect of inflation or deflation
- (e) The expected total return from income and the appreciation of investments
- (f) Other resources of the institution
- (g) The investment policy of the institution

The appropriation for expenditure in any year of an amount not greater than five per cent of the fair market value of an endowment fund, whether or not the total expenditure from it exceeds five per cent, calculated on the basis of market values that are determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made, creates an irrebuttable presumption of prudence.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. The University has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2019, funds with original gift values of \$10,681,063, fair values of \$9,848,076, and deficiencies of \$832,987 were reported in net assets with donor restrictions. At June 30, 2018, funds with original gift values of \$2,619,685, fair values of \$2,409,967, and deficiencies of \$209,718 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The University receives significant financial assistance from governmental agencies in the form of grants. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by grantor agencies and possible disallowance of certain expenditures. The University has not had any disallowance of expenditures in the past and expects such amounts, if any, to be immaterial.

The University from time to time is subject to litigation in the ordinary course of its business. It is the opinion of management that the outcome of these actions is either adequately covered by insurance, or if not insured, will not have a material adverse impact on the University's financial position or results of future operations.

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