

CAPITAL UNIVERSITY
Columbus, Ohio

FINANCIAL STATEMENTS
June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 20, 2021

CAPITAL UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 12,856,825	\$ 10,690,749
Accounts receivable		
Students, less allowance for \$1,026,781 and \$965,105 in 2021 and 2020, respectively	1,800,912	1,800,133
Other	2,432,736	1,055,930
Prepaid expenses and other assets	1,313,941	1,146,119
Pledges receivable	787,972	893,442
Student notes receivable, less allowance of \$105,500 in 2021 and 2020, respectively	2,410,565	3,129,642
Contributions receivable from remainder trusts	636,611	519,980
Beneficial interests in perpetual trusts	10,117,856	8,624,038
Investments	150,870,443	117,302,150
Investment in joint venture	1,468,916	1,500,000
Land, buildings, and equipment, less accumulated depreciation and amortization of \$137,549,303 and \$129,572,857 in 2021 and 2020, respectively	115,925,830	121,970,963
Total assets	\$ 300,622,607	\$ 268,633,146
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 1,244,229	\$ 1,123,035
Accrued liabilities	7,266,081	7,964,431
Student advance deposits	228,515	274,300
Deferred tuition revenue	2,682,971	3,318,350
Agency funds held for others	406,841	197,383
Note, mortgage, and bond payable	1,098,128	1,173,467
Capital lease obligations payable	25,743,007	27,450,501
Postretirement benefit obligation	1,324,409	1,286,345
Advances from government for student loans	3,878,729	4,443,068
Total liabilities	43,872,910	47,230,880
Net assets		
Without donor restrictions	122,995,675	114,345,426
With donor restrictions	133,754,022	107,056,840
Total net assets	256,749,697	221,402,266
Total liabilities and net assets	\$ 300,622,607	\$ 268,633,146

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF ACTIVITIES
Year ended June 30, 2021 with comparative 2020 totals

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
Revenue, gains and other support				
Student tuition and fees	\$ 101,284,886	\$ -	\$ 101,284,886	\$ 104,467,890
Unfunded student financial aid	(52,965,703)	-	(52,965,703)	(54,528,419)
Funded student financial aid	(1,828,609)	-	(1,828,609)	(2,466,328)
	46,490,574	-	46,490,574	47,473,143
Private gifts and grants	1,970,492	2,514,956	4,485,448	4,039,338
Government grants and contracts	208,392	8,521,397	8,729,789	1,990,051
Investment return appropriated for spending	1,062,874	3,738,034	4,800,908	4,776,614
Other	1,412,737	84,716	1,497,453	1,705,701
Auxiliary enterprises	8,920,329	-	8,920,329	12,709,524
Operating net assets released from restrictions	13,225,073	(13,225,073)	-	-
Total revenue	73,290,471	1,634,030	74,924,501	72,694,371
Expenses				
Salaries and wages	32,291,486	-	32,291,486	34,525,675
Employee benefits	10,771,391	-	10,771,391	11,639,360
Services, supplies, and other operating expenses	12,048,256	-	12,048,256	13,690,673
Occupancy, utilities, and maintenance	6,345,780	-	6,345,780	6,979,099
COVID-19 CARES Act Emergency Relief				
Fund for Students	2,317,984	-	2,317,984	255,000
Depreciation and amortization	8,864,739	-	8,864,739	9,679,715
Interest expense	648,184	-	648,184	789,026
Total expenses	73,287,820	-	73,287,820	77,558,548
Change in net assets before other activities	2,651	1,634,030	1,636,681	(4,864,177)
Other activities				
Investment return, net of spending policy	8,293,143	21,921,388	30,214,531	(3,085,818)
Private gifts restricted for endowment	-	2,869,354	2,869,354	2,780,932
Change in value of split-interest agreements	-	272,410	272,410	310,895
Postretirement benefit obligation related changes other than periodic costs	(85,775)	-	(85,775)	(266,872)
Gain on sale of assets	440,230	-	440,230	2,335,967
Total other activities	8,647,598	25,063,152	33,710,750	2,075,104
Changes in net assets	8,650,249	26,697,182	35,347,431	(2,789,073)
Net assets at beginning of year	114,345,426	107,056,840	221,402,266	224,191,339
Net assets at end of year	\$ 122,995,675	\$ 133,754,022	\$ 256,749,697	\$ 221,402,266

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total 2020
Revenue, gains and other support			
Student tuition and fees	\$ 104,467,890	\$ -	\$ 104,467,890
Unfunded student financial aid	(54,528,419)	-	(54,528,419)
Funded student financial aid	(2,466,328)	-	(2,466,328)
	<u>47,473,143</u>	<u>-</u>	<u>47,473,143</u>
Private gifts and grants	2,116,481	1,922,857	4,039,338
Government grants and contracts	180,630	1,809,421	1,990,051
Investment return appropriated for spending	1,066,011	3,710,603	4,776,614
Other	1,425,727	279,974	1,705,701
Auxiliary enterprises	12,709,524	-	12,709,524
Operating net assets released from restrictions	6,422,374	(6,422,374)	-
	<u>71,393,890</u>	<u>1,300,481</u>	<u>72,694,371</u>
Total revenue			
Expenses			
Salaries and wages	34,525,675	-	34,525,675
Employee benefits	11,639,360	-	11,639,360
Services, supplies, and other operating expenses	13,690,673	-	13,690,673
Occupancy, utilities, and maintenance	6,979,099	-	6,979,099
COVID-19 CARES Act Emergency Relief			
Fund for Students	255,000	-	255,000
Depreciation and amortization	9,679,715	-	9,679,715
Interest expense	789,026	-	789,026
	<u>77,558,548</u>	<u>-</u>	<u>77,558,548</u>
Total expenses			
Change in net assets before other activities	(6,164,658)	1,300,481	(4,864,177)
Other activities			
Investment return, net of spending policy	(274,082)	(2,811,736)	(3,085,818)
Private gifts restricted for endowment	599,908	2,181,024	2,780,932
Change in value of split-interest			
agreements	(487,625)	798,520	310,895
Postretirement benefit obligation related			
changes other than periodic costs	(266,872)	-	(266,872)
Gain on sale of assets	2,335,967	-	2,335,967
Release of annuity net assets on			
sale of liability	908,964	(908,964)	-
	<u>2,816,260</u>	<u>(741,156)</u>	<u>2,075,104</u>
Total other activities			
Changes in net assets	(3,348,398)	559,325	(2,789,073)
Net assets at beginning of year	117,693,824	106,497,515	224,191,339
Net assets at end of year	<u>\$ 114,345,426</u>	<u>\$ 107,056,840</u>	<u>\$ 221,402,266</u>

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 35,347,431	\$ (2,789,073)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	8,864,739	9,679,715
Amortization of debt issuance cost	11,525	11,525
Realized and unrealized gains on investments	(35,242,164)	(1,913,911)
Gifts for permanently restricted purposes	(2,852,354)	(2,181,024)
Gains on disposal of assets	(440,230)	(2,335,967)
Postretirement benefit obligation related changes other than periodic costs	85,775	266,872
Change in operating assets and liabilities		
Accounts receivable	(1,377,585)	(11,719)
Pledges receivable	105,470	240,727
Prepaid expenses and other assets	(167,822)	(182,666)
Contributions receivable from remainder trusts	(116,631)	765,430
Accounts payable and accrued liabilities	(577,156)	(147,603)
Student advance deposits	(45,785)	(86,072)
Deferred tuition revenue	(635,379)	645,900
Agency funds held for others	209,458	(18,686)
Annuities payable	-	(604,774)
Postretirement benefit obligation	(47,711)	(29,530)
Government advances	(564,339)	(820,736)
Net cash from operating activities	<u>2,557,242</u>	<u>488,408</u>
Cash flows from investing activities		
Capital expenditures, net	(3,131,768)	(2,547,739)
Net proceeds from sale of assets	752,392	1,758,297
Changes in notes receivable	719,077	730,138
Purchases of investment	(159,809,289)	(47,431,646)
Sales of investments	160,020,426	52,101,861
Net cash (used) from investing activities	<u>(1,449,162)</u>	<u>4,610,911</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	691,913	-
Payments on long-term debt	(2,486,271)	(1,735,390)
Gifts for permanently restricted purposes	2,852,354	2,181,024
Net cash from financing activities	<u>1,057,996</u>	<u>445,634</u>
Net change in cash and cash equivalents	2,166,076	5,544,953
Cash and cash equivalents at beginning of year	<u>10,690,749</u>	<u>5,145,796</u>
Cash and cash equivalents at end of year	<u>\$ 12,856,825</u>	<u>\$ 10,690,749</u>
Cash paid for interest	\$ 636,659	\$ 777,501

See accompanying notes to financial statements.

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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.

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, 2021 and 2020.

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.

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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 consist 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 include 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, 2021 and 2020, management believes no impairments existed.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020, the University released \$13,225,073 and \$6,422,374, 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.

Gain on sale of assets: Represents the difference between the proceeds received from sale of University assets and the assets' carrying value at time of sale.

Revenue Recognition: The University recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. In addition, the students have an option to room and board on the premises. The performance obligation of providing access to housing and meals is satisfied ratably over the academic period in which the student chooses to live on campus and purchase a meal plan. Contracts for tuition, room, and board are combined into a single portfolio of similar contracts. Payments are generally required prior to the beginning of the semester. All amounts received prior to the commencement of the school year, including enrollment deposits, are deferred to the applicable period. All prior year deferred revenue was recognized as current year revenue. Scholarships provided to students are recorded as a reduction from the posted tuition and room and board rates at the time revenue is recognized.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued):

The University records contributions, cash, and promises to give, when they are received unconditionally, at their fair value. Conditional contributions are recognized as revenue when the conditions on which they depend have been met. Federal and state contracts and grants are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Consequently, at June 30, 2021, contributions and federal grants of \$7,173,100, of which \$19,400 has been received in advance, have not been recognized in the accompanying financial statements because the conditions have not yet been met. Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values.

Donated assets are reflected as contributions at their estimated fair market value at the time of donation.

Federal Income Tax: The Internal Revenue Service has ruled that the 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 prescribe 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, 2021 and 2020.

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, 2021 and 2020, except for 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, 2021 and 2020 was approximately \$3,638,177 and \$3,844,626, respectively.

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.

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CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2021 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2021. Management has performed this analysis through October 20, 2021, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	<u>2021</u>	<u>2020</u>
Invested cash	\$ 1,583,091	\$ 124,813
U.S. government and government agencies	246,440	269,277
Corporate bonds	168,568	139,443
Mutual funds - equities	469,935	494,314
Exchange traded funds	20,974,409	6,403,304
Common trust funds	114,321,413	99,599,270
Hedge funds of funds	-	757,552
Private equity funds	<u>13,106,587</u>	<u>9,514,177</u>
	<u>\$ 150,870,443</u>	<u>\$ 117,302,150</u>

The composition of investment return is as follows:

	<u>2021</u>	<u>2020</u>
Investment income (interest and dividends)	\$ 376,690	\$ 198,764
Investment expenses	(603,415)	(421,879)
Net realized gain	12,929,328	283,570
Net unrealized gain	<u>22,312,836</u>	<u>1,630,341</u>
Total investment return	35,015,439	1,690,796
Investment return included in revenues	<u>(4,800,908)</u>	<u>(4,776,614)</u>
Investment return included in other activities	<u>\$ 30,214,531</u>	<u>\$ (3,085,818)</u>

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:

(Continued)

NOTE 2 – INVESTMENTS (Continued)

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 mutual funds, exchange traded 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 owned 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, 2021. There were no unfunded commitments at June 30, 2021 and 2020.

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 20 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 5 to 12 years from the University's June 30, 2021 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 \$3,061,322 and \$4,120,644 at June 30, 2021 and 2020, respectively.

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CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

Common Trust Funds ("CTFs") provide long-term investment vehicles to manage funds efficiently for their participant. The University is invested in 13 separate funds managed by managers whose strategy is realization of long-term total returns by investing in a diversified group of pooled investment funds. The underlying investments of each CTF are readily marketable. The fair values of the investments in this category have been measured at net asset value per share of the trust as reported by the manager as a practical expedient for fair value. As such, these investments are excluded from the fair value hierarchy.

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 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, 2021 and 2020 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, 2021:				
Assets				
Cash and cash equivalents	\$ 1,583,091	\$ -	\$ -	\$ 1,583,091
U.S. government and government agencies	246,440	-	-	246,440
Corporate bonds	168,568	-	-	168,568
Mutual funds - equities	469,935	-	-	469,935
Exchange traded funds	20,974,409	-	-	20,974,409
Total assets in the fair value hierarchy	23,442,443	-	-	23,442,443
Funds measured at NAV:				
Common trust funds				114,321,413
Private equity funds				13,106,587
Total investments				150,870,443
Beneficial interests in perpetual trusts	-	-	10,117,856	10,117,856
Liabilities				
Interest rate swap	-	257,004	-	257,004

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2020:				
Assets				
Cash and cash equivalents	\$ 124,813	\$ -	\$ -	\$ 124,813
U.S. government and government agencies	269,277	-	-	269,277
Corporate bonds	139,443	-	-	139,443
Mutual funds - equities	494,314	-	-	494,314
Exchange traded funds	6,403,304	-	-	6,403,304
Total assets in the fair value hierarchy	7,431,151	-	-	7,431,151
Funds measured at NAV:				
Common trust funds				99,599,270
Hedge funds of funds				757,552
Private equity funds				9,514,177
Total investments				117,302,150
Beneficial interests in perpetual trusts	-	-	8,624,038	8,624,038
Liabilities				
Interest rate swap	-	571,517	-	571,517

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

NOTE 3 – INVESTMENT IN AFFILIATED COMPANY/INVESTMENT IN JOINT VENTURE TO DEVELOP RESIDENTIAL REAL ESTATE

In April 2018, the University entered into an agreement to Joint Venture commercial property with a Developer to develop, finance, and manage a Class-A multi-family apartment building, on land owned by the University at the corner of Grant and Oak Streets in downtown Columbus. On February 21, 2020, an Ohio limited liability company, Pizzuti South Grant Apartments LLC (the "Company") was formed to be the operating entity for the Joint Venture. Effective April 30, 2020, the University and the Developer entered into an operating agreement for the apartment project. Under the terms of the operating agreement, the University contributed the one-acre parcel of land at Grand and Oak Streets, valued at \$1,500,000, as its capital contribution, for a 50% equity interest in the Company. The Developer will finance and guarantee all debt associated with the Joint Venture. The University's financial commitment to the Company is limited to its initial contribution of land. Each partner will receive a base preferred return of 6% in proportion to its respective capital contribution. Once the preferred returns are made, each partner will receive repayment of its equity contribution in proportion to its respective capital contribution. However, to the extent the Developer's initial equity capital contribution is more than 50% of the project equity, the Developer will receive 100% of the distributions (after payment of preferred returns) until its capital account is equal to the University's. Any remaining operating cash flow and proceeds, after preferred returns and equity return, will be split equally between the University and the Developer.

Construction on the project began in May 2020 and is scheduled to be substantially complete by February 2022.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 3 – INVESTMENT IN AFFILIATED COMPANY/INVESTMENT IN JOINT VENTURE TO DEVELOP RESIDENTIAL REAL ESTATE (Continued)

	<u>June 30, 2021</u>
Assets	
Cash and cash equivalents	\$ 66,638
Other assets	24,800
Property under development	<u>15,735,543</u>
 Total assets	 <u>\$ 15,826,981</u>
 Liabilities and Members' Equity	
Real estate debt - property under development, net	\$ 2,622,797
Accounts payables and accrued expenses	2,650,756
Members' equity	<u>10,553,428</u>
 Total liabilities and members' equity	 <u>\$ 15,826,981</u>
	 <u>Six Months Ended</u> <u>June 30, 2021</u>
Statement of Operations	
Operating expenses	<u>\$ 23,345</u>
 Net loss	 <u>\$ 23,345</u>

NOTE 4 – PLEDGES RECEIVABLE

For the years ending June 30, 2021 and 2020, the University had unconditional promises to give totaling \$854,913 and \$980,931, 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Gross:		
Less than one year	\$ 126,431	\$ 231,431
One to five years	676,982	588,000
More than five years	<u>51,500</u>	<u>161,500</u>
	854,913	980,931
Less: discount	<u>(66,941)</u>	<u>(87,489)</u>
	<u>\$ 787,972</u>	<u>\$ 893,442</u>

The amounts are recorded at the present value of future cash flows based on a discount rate of 5% for both periods that totaled \$66,941 and \$87,489 as of June 30, 2021 and 2020, respectively.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land	\$ 16,068,968	\$ 16,181,843
Improvements other than buildings	12,405,363	12,405,363
Buildings	123,675,766	124,014,391
Building improvements	42,251,367	40,946,433
Equipment	41,284,014	39,588,426
Library books	2,227,916	2,697,715
Law library books	15,344,979	15,281,735
Construction in progress	216,760	427,914
	253,475,133	251,543,820
Accumulated depreciation and amortization	(137,549,303)	(129,572,857)
	\$ 115,925,830	\$ 121,970,963

Contractual commitments remaining under ongoing and planned construction projects approximated \$789,000 and \$952,000 at June 30, 2021 and 2020, respectively.

NOTE 6 – 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, 2021 and 2020 and there were no outstanding balances at June 30, 2021 and 2020. The expiration date of the agreement is May 31, 2022.

NOTE 7 – NOTE, MORTGAGE, AND BOND PAYABLE

The University had the following notes, mortgage, and bond payable at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Note payable	\$ 56,215	\$ 59,174
Mortgage payable	691,914	709,294
Bond payable	349,999	404,999
	\$ 1,098,128	\$ 1,173,467

In October 2014, the University entered into a promissory note agreement with the City of Bexley 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 with a bank as a result of acquiring the president's house. In June 2021, the mortgage was refinanced with another bank. The agreement is secured by the property and is payable in monthly installments (including interest at 2.71%) over three years with a final principal and interest payment of \$580,052 due in June 2024.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 7 – NOTE, MORTGAGE, AND BOND PAYABLE (Continued)

In November 2017, as part of the reunion between the University and Trinity Lutheran Seminary (the "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 8 – CAPITALIZED LEASE OBLIGATIONS PAYABLE

The University had the following capitalized lease obligations at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Capital University 2013 Project	\$ 2,985,000	\$ 3,110,000
Capital University 2015 Project	22,827,355	24,421,374
	<u>25,812,355</u>	<u>27,531,374</u>
Less: unamortized debt issuance cost	<u>(69,348)</u>	<u>(80,873)</u>
	<u>\$ 25,743,007</u>	<u>\$ 27,450,501</u>

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. The obligation is due May 2038. 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 agreement 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 (0.09% and 0.16% at June 30, 2021 and 2020, respectively) plus 85 basis points. The variable rate at June 30, 2021 and 2020 was 0.93% and 0.97%, 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.

At June 30, 2021, future principal payments by year and in the aggregate under the capital lease obligations consist of the following:

2022	\$ 1,791,499
2023	1,914,129
2024	1,986,912
2025	2,069,850
2026	2,147,947
After 2025	<u>15,902,018</u>
	<u>\$ 25,812,355</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 8 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

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

	<u>2021</u>	<u>2020</u>
Cost	\$ 81,485,290	\$ 81,485,290
Accumulated amortization	<u>(38,638,152)</u>	<u>(36,194,212)</u>
	<u>\$ 42,847,138</u>	<u>\$ 45,291,078</u>

The interest rate on the 2013 Project lease for the years ended June 30, 2021 and 2020 was 2.05%. Total interest and fees paid and expensed under this lease for the years ended June 30, 2021 and 2020 was \$63,471 and \$66,180, respectively.

The average interest rate on the 2015 Project lease for the years ended June 30, 2021 and 2020 was 0.96% and 1.99%, respectively. Total interest and fees paid and expensed under the lease for the years ended June 30, 2021 and 2020 were \$225,382 and \$499,029, respectively.

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

NOTE 9 – 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. For the years ended June 30, 2021 and 2020, the University recorded unrecognized gain (loss) on the position of \$314,513 and \$(144,290), respectively, that is included in investment return in the Statements of Activities. The fair value of \$(257,004) and \$(571,517) as of June 30, 2021 and 2020, respectively, is included in accrued liabilities in the Statements 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.

NOTE 10 – FINANCIAL ASSETS AND LIQUIDITY

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

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 10 – FINANCIAL ASSETS AND LIQUIDITY (Continued)

	<u>2021</u>	<u>2020</u>
Financial Assets		
Cash and cash equivalents	\$ 12,856,825	\$ 10,690,749
Notes and accounts receivable	6,644,213	5,985,705
Pledges receivable	787,972	893,442
Contributions receivable from remainder trusts	636,611	519,980
Beneficial interest in perpetual trusts	10,117,856	8,624,038
Long-term investments	<u>150,870,443</u>	<u>117,302,150</u>
Financial Assets, at year-end	<u>\$ 181,913,920</u>	<u>\$ 144,016,064</u>
Less those not available for general expenditures within one year:		
Notes and accounts receivable collectible beyond one year	\$ (2,410,565)	\$ (3,129,642)
Pledges receivable restricted by donor	(701,472)	(810,942)
Donor-restricted endowment funds	(105,259,646)	(81,011,236)
Board-designated endowment funds	(17,447,291)	(13,871,315)
Investments held in trust and annuity reserves	<u>(11,080,927)</u>	<u>(9,474,032)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 45,014,019</u>	<u>\$ 35,718,897</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 \$18,119,450 as of June 30, 2021. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

NOTE 11 – 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, 2021 and 2020

NOTE 11 – EXPENSES BY BOTH NATURE AND FUNCTION (Continued)

Functional expenses by natural classification for the year ended June 30, 2021:

	Program Activities	Supporting Activities			Total Expense
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salary and wages	\$ 24,717,130	\$ 4,280,383	\$ 1,271,606	\$ 2,022,367	\$ 32,291,486
Employee benefits	8,065,378	1,489,150	492,461	724,402	10,771,391
Services, supplies, and other operating expenses	8,084,670	3,586,338	295,998	81,250	12,048,256
Occupancy, utilities, and maintenance	284,091	185,608	-	5,876,081	6,345,780
COVID-19 CARES Act Emergency Relief Fund for Students	2,317,984	-	-	-	2,317,984
Depreciation and amortization	8,465,825	354,590	44,324	-	8,864,739
Interest expense	619,016	25,927	3,241	-	648,184
	<u>52,554,094</u>	<u>9,921,996</u>	<u>2,107,630</u>	<u>8,704,100</u>	<u>73,287,820</u>
Facilities operation and maintenance	<u>8,312,415</u>	<u>348,164</u>	<u>43,521</u>	<u>(8,704,100)</u>	<u>-</u>
Total expenses	<u>\$ 60,866,509</u>	<u>\$ 10,270,160</u>	<u>\$ 2,151,151</u>	<u>\$ -</u>	<u>\$ 73,287,820</u>

Functional expenses by natural classification for the year ended June 30, 2020:

	Program Activities	Supporting Activities			Total Expense
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salary and wages	\$ 25,872,434	\$ 5,224,865	\$ 1,376,314	\$ 2,052,062	\$ 34,525,675
Employee benefits	8,540,444	1,843,992	515,786	739,138	11,639,360
Services, supplies, and other operating expenses	8,804,754	4,342,549	402,411	140,959	13,690,673
Occupancy, utilities, and maintenance	332,330	167,113	-	6,479,656	6,979,099
COVID-19 CARES Act Emergency Relief Fund for Students	255,000	-	-	-	255,000
Depreciation and amortization	9,244,128	387,188	48,399	-	9,679,715
Interest expense	753,520	31,561	3,945	-	789,026
	<u>53,802,610</u>	<u>11,997,268</u>	<u>2,346,855</u>	<u>9,411,815</u>	<u>77,558,548</u>
Facilities operation and maintenance	<u>8,988,283</u>	<u>376,473</u>	<u>47,059</u>	<u>(9,411,815)</u>	<u>-</u>
Total expenses	<u>\$ 62,790,893</u>	<u>\$ 12,373,741</u>	<u>\$ 2,393,914</u>	<u>\$ -</u>	<u>\$ 77,558,548</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 12 – PENSION PLAN

The University contributed \$2,029,486 and \$2,399,254 during the years ended June 30, 2021 and 2020, 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 13 – POSTRETIREMENT BENEFIT OBLIGATION

The University provides certain healthcare benefits to retirees who were fulltime employees and completed 10 years of service and reached age 59½. 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 Statements of Financial Position at June 30:

	<u>2021</u>	<u>2020</u>
Accumulated benefit obligation		
Accumulated benefit obligation	\$ (1,324,409)	\$ (1,286,345)
Fair value of plan assets	<u> -</u>	<u> -</u>
Funded status at June 30	<u>\$ (1,324,409)</u>	<u>\$ (1,286,345)</u>

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

	<u>2021</u>	<u>2020</u>
Accrued benefit cost		
Beginning of year balance	\$ (1,286,345)	\$ (1,049,003)
Interest cost	(35,374)	(38,289)
Service cost	<u>(32,325)</u>	<u>(31,538)</u>
Net periodic pension cost	(67,699)	(69,827)
Employer benefit payments	115,410	99,357
Postretirement benefit obligation related changes other than periodic cost	<u>(85,775)</u>	<u>(266,872)</u>
Accrued postretirement liability recognized in the statements of financial position	<u>\$ (1,324,409)</u>	<u>\$ (1,286,345)</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 13 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

Net periodic pension expenses for the year ending June 30, 2022 are expected to be \$82,538. Contributions expected to be made next year are approximately \$97,062. 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 \$64,973 and \$(20,801) at June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Discount rate	2.75%	2.75%
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	2025	2024

Future benefit payments are projected as follows:

2022	\$ 97,062
2023	136,115
2024	159,916
2025	175,695
2026	152,980
2027-2030	576,001

The effects of a 1% change in the assumed health care cost trend rate in each year are summarized as follows:

	<u>2021</u>	<u>2020</u>
Effect of an increase		
Accumulated postretirement benefit obligation	\$ 71,986	\$ 70,402
Service cost and interest cost	4,948	4,946
Effect of an decrease		
Accumulated postretirement benefit obligation	(66,566)	(64,998)
Service cost and interest cost	(4,463)	(4,515)

NOTE 14 – NET ASSETS

Net assets without donor restrictions as of June 30, 2021 and 2020 comprise the following:

	<u>2021</u>	<u>2020</u>
Net Assets Without Donor Restrictions:		
Undesignated	\$ 14,656,604	\$ 5,481,358
Investment in joint venture	1,468,916	1,500,000
Board-designated endowment	18,119,450	14,470,686
Federal loan program funds	526,342	603,420
Insurance policies	653,225	673,226
Net investment in property and equipment	<u>87,571,138</u>	<u>91,616,736</u>
Total net assets without donor restrictions	<u>\$ 122,995,675</u>	<u>\$ 114,345,426</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 14 – NET ASSETS (Continued)

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

	<u>2021</u>	<u>2020</u>
Net Assets With Donor Restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	\$ 1,769,686	\$ 1,752,081
Academic, student programs, and support	8,799,328	8,063,198
Capital additions	<u>1,804,521</u>	<u>1,774,996</u>
	<u>12,373,535</u>	<u>11,590,275</u>
Subject to passage of time:		
Contributions receivable from third party trusts	337,958	263,718
Split interest agreements	<u>1,015,113</u>	<u>976,277</u>
	<u>1,353,071</u>	<u>1,239,995</u>
Subject to the University's spending policy and appropriation:		
Accumulated gains and term endowments	32,102,477	10,783,243
Endowment funds restricted in perpetuity	<u>76,803,221</u>	<u>73,801,054</u>
	<u>108,905,698</u>	<u>84,584,297</u>
Not subject to spending policy and appropriation:		
Perpetual trusts held by others	10,117,856	8,624,038
Loan funds	<u>1,003,862</u>	<u>1,018,235</u>
	<u>11,121,718</u>	<u>9,642,273</u>
 Total net assets with donor restrictions	 <u>\$ 133,754,022</u>	 <u>\$ 107,056,840</u>
 Total	 <u>\$ 256,749,697</u>	 <u>\$ 221,402,266</u>

NOTE 15 – 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, 2021 and 2020

NOTE 15 – ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Funds</u>
Board-designated funds	\$ 18,119,450	\$ -	\$ 18,119,450
Donor-restricted funds:			
Accumulated gains	-	32,102,477	32,102,477
Original gift	-	86,704,971	86,704,971
	<u>\$ 18,119,450</u>	<u>\$ 118,807,448</u>	<u>\$ 136,926,898</u>
Endowment net assets, beginning of year	\$ 14,470,686	\$ 92,978,371	\$ 107,449,057
Investment return	4,163,906	26,157,027	30,320,933
Contributions	-	2,883,212	2,883,212
Appropriation of endowment assets for expenditure	(557,142)	(4,243,766)	(4,800,908)
Transfer of unspent endowment appropriation	42,000	899,791	941,791
Matured annuities	-	132,813	132,813
	<u>\$ 18,119,450</u>	<u>\$ 118,807,448</u>	<u>\$ 136,926,898</u>

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Funds</u>
Board-designated funds	\$ 14,470,686	\$ -	\$ 14,470,686
Donor-restricted funds:			
Accumulated gains	-	10,783,243	10,783,243
Original gift	-	82,195,128	82,195,128
	<u>\$ 14,470,686</u>	<u>\$ 92,978,371</u>	<u>\$ 107,449,057</u>
Endowment net assets, beginning of year	\$ 13,251,705	\$ 93,046,575	\$ 106,298,280
Investment return	309,607	1,355,650	1,665,257
Contributions	599,908	2,315,984	2,915,892
Appropriation of endowment assets for expenditure	(556,167)	(4,220,447)	(4,776,614)
Matured annuities	865,633	480,609	1,346,242
	<u>\$ 14,470,686</u>	<u>\$ 92,978,371</u>	<u>\$ 107,449,057</u>

(Continued)

NOTE 15 – ENDOWMENT COMPOSITION (Continued)

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
- (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 net assets with donor restrictions 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 5% of the fair market value of an endowment fund, whether or not the total expenditure from it exceeds 5%, 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.

(Continued)

NOTE 15 – ENDOWMENT COMPOSITION (Continued)

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, 2021, funds with original gift values of \$200,195, fair values of \$171,035, and deficiencies of \$29,160 were reported in net assets with donor restrictions. At June 30, 2020, funds with original gift values of \$36,960,198, fair values of \$35,236,442, and deficiencies of \$1,723,756 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations.

NOTE 16 – 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.

NOTE 17 – COVID-19 GLOBAL PANDEMIC

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

The University's operations are heavily dependent on tuition and private and public donations from individuals, foundations, and corporations. Accordingly, the pandemic is expected to affect the financial condition, results of operations, and cash flows of the University during fiscal year 2022.

NOTE 18 – CARES ACT

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law, which, among other things, created the Higher Education Emergency Relief Fund ("HEERF"). In April 2020, August 2020, and March 2021, the University applied for HEERF funds to provide emergency grants to help students and their families facing additional expenses related to the disruption of regular campus operation and to cover expenses of the University related to the disruption of campus operations due to COVID-19. The University received: (1) \$4,529,070 and \$1,243,434 in the years ending June 30, 2021 and 2020, respectively, to be provided directly to students in the form of emergency grants ("Student Portion") and (2) \$5,751,213 and \$1,243,434 in the years ending June 30, 2021 and 2020, respectively, to provide additional emergency financial aid grants to students and/or to cover any institutional costs associated with significant changes to the delivery of instruction due to the coronavirus ("Institutional Portion"). These funds are to be used for costs incurred as a result of the coronavirus between March 1, 2020 and January 16, 2022. During the years ended June 30, 2021 and 2020, the University recognized a total of \$5,158,315 and \$510,000 of grant revenues in the years ending June 30, 2021 and 2020, respectively, which are included in the Statements of Activities.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 18 – CARES ACT (Continued)

In addition, in July 2020, the University applied for Ohio CARES Act funds (Coronavirus Relief Fund) to cover expenses related to the disruption of campus operations due to COVID-19 and was awarded \$22,293 for mental health services and \$2,219,820 to be used for other eligible expenses incurred between March 1, 2020 and December 31, 2021. The University met all the requirements of the grants during the year ended June 30, 2021 and has included the revenues in the Statement of Activities for the year then ended.

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