

CAPITAL UNIVERSITY
Columbus, Ohio

FINANCIAL STATEMENTS
June 30, 2022 and 2021

CAPITAL UNIVERSITY
Columbus, Ohio

FINANCIAL STATEMENTS
June 30, 2022 and 2021

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS	7



+ 1111 Superior Avenue, Suite 700, Cleveland, Ohio 44114

+ p 216.363.0100 | f 216.363.0500

+ www.maloneynovotny.com

Independent Auditor's Report

To the Board of Trustees
Capital University

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of Capital University (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Capital University as of June 30, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Audits of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Capital University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Capital University's ability to continue as a going concern for a reasonable period of time.

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

Meloney + Novotny LLC

Cleveland, Ohio
October 6, 2022

CAPITAL UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 5,895,286	\$ 12,856,825
Accounts receivable		
Students, less allowance of \$734,716 and \$1,026,781 in 2022 and 2021, respectively	1,592,189	1,800,912
Other	5,755,139	2,432,736
Prepaid expenses and other assets	1,501,552	1,313,941
Pledges receivable	1,051,235	787,972
Student notes receivable, less allowance of \$65,500 and \$105,500 in 2022 and 2021, respectively	1,615,757	2,410,565
Contributions receivable from remainder trusts	492,844	636,611
Beneficial interests in perpetual trusts	8,571,152	10,117,856
Investments	137,883,167	150,870,443
Investment in joint venture	886,687	1,468,916
Land, buildings, and equipment, less accumulated depreciation and amortization of \$144,284,604 and \$137,549,303 in 2022 and 2021, respectively	111,393,530	115,925,830
Total assets	\$ 276,638,538	\$ 300,622,607
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 1,086,699	\$ 1,244,229
Accrued salaries and employee benefits	4,204,188	4,742,273
Other accrued liabilities	2,147,957	2,930,649
Deferred tuition revenue and student deposits	2,338,647	2,911,486
Note, mortgage, and bond payable	348,256	1,098,128
Capital lease obligations payable	24,244,680	25,743,007
Postretirement benefit obligation	1,049,285	1,324,409
Advances from government for student loans	2,912,799	3,878,729
Total liabilities	38,332,511	43,872,910
Net assets		
Without donor restrictions	112,817,218	122,995,675
With donor restrictions	125,488,809	133,754,022
Total net assets	238,306,027	256,749,697
Total liabilities and net assets	\$ 276,638,538	\$ 300,622,607

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF ACTIVITIES
Year ended June 30, 2022 with comparative 2021 totals

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
Revenue, gains and other support				
Student tuition and fees	\$ 96,948,716	\$ -	\$ 96,948,716	\$ 101,284,886
Unfunded student scholarships	(51,446,992)	-	(51,446,992)	(52,965,703)
Funded student scholarships	(1,869,964)	-	(1,869,964)	(1,828,609)
	43,631,760	-	43,631,760	46,490,574
Private gifts and grants	1,817,048	2,673,989	4,491,037	4,485,448
Government grants and contracts	192,451	7,972,649	8,165,100	8,729,789
Investment return appropriated for spending	1,102,997	3,558,154	4,661,151	4,800,908
Other	1,083,695	332,071	1,415,766	1,497,453
Auxiliary enterprises	11,165,674	-	11,165,674	8,920,329
Operating net assets released from restrictions	12,713,009	(12,713,009)	-	-
Total revenue, gains and other support	71,706,634	1,823,854	73,530,488	74,924,501
Expenses				
Salaries and employee benefits	42,560,615	-	42,560,615	43,062,877
Services, supplies, and other operating expenses	15,576,766	-	15,576,766	12,048,256
Occupancy, utilities, and maintenance	7,062,711	-	7,062,711	6,345,780
COVID-19 CARES Act Emergency Relief Fund for Students	3,301,336	-	3,301,336	2,317,984
Depreciation and amortization	8,992,377	-	8,992,377	8,864,739
Interest expense	590,447	-	590,447	648,184
Total expenses	78,084,252	-	78,084,252	73,287,820
Change in net assets before other activities	(6,377,618)	1,823,854	(4,553,764)	1,636,681
Other activities				
Investment return, net of spending policy	(5,002,395)	(13,905,145)	(18,907,540)	30,214,531
Private gifts restricted for endowment	759,409	4,046,972	4,806,381	2,869,354
Change in value of split-interest agreements	-	(230,894)	(230,894)	272,410
Change in postretirement benefit obligation	247,106	-	247,106	(85,775)
Gain on sale of assets	195,041	-	195,041	440,230
Total other activities	(3,800,839)	(10,089,067)	(13,889,906)	33,710,750
Changes in net assets	(10,178,457)	(8,265,213)	(18,443,670)	35,347,431
Net assets at beginning of year	122,995,675	133,754,022	256,749,697	221,402,266
Net assets at end of year	\$ 112,817,218	\$ 125,488,809	\$ 238,306,027	\$ 256,749,697

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENT OF ACTIVITIES
Year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total 2021
Revenue, gains and other support			
Student tuition and fees	\$ 101,284,886	\$ -	\$ 101,284,886
Unfunded student scholarships	(52,965,703)	-	(52,965,703)
Funded student scholarships	(1,828,609)	-	(1,828,609)
	<u>46,490,574</u>	<u>-</u>	<u>46,490,574</u>
Private gifts and grants	1,970,492	2,514,956	4,485,448
Government grants and contracts	208,392	8,521,397	8,729,789
Investment return appropriated for spending	1,062,874	3,738,034	4,800,908
Other	1,412,737	84,716	1,497,453
Auxiliary enterprises	8,920,329	-	8,920,329
Operating net assets released from restrictions	13,225,073	(13,225,073)	-
	<u>73,290,471</u>	<u>1,634,030</u>	<u>74,924,501</u>
Expenses			
Salaries and employee benefits	43,062,877	-	43,062,877
Services, supplies, and other operating expenses	12,048,256	-	12,048,256
Occupancy, utilities, and maintenance	6,345,780	-	6,345,780
COVID-19 CARES Act Emergency Relief Fund for Students	2,317,984	-	2,317,984
Depreciation and amortization	8,864,739	-	8,864,739
Interest expense	648,184	-	648,184
	<u>73,287,820</u>	<u>-</u>	<u>73,287,820</u>
Change in net assets before other activities	2,651	1,634,030	1,636,681
Other activities			
Investment return, net of spending policy	8,293,143	21,921,388	30,214,531
Private gifts restricted for endowment	-	2,869,354	2,869,354
Change in value of split-interest agreements	-	272,410	272,410
Change in postretirement benefit obligation	(85,775)	-	(85,775)
Gain on sale of assets	440,230	-	440,230
	<u>8,647,598</u>	<u>25,063,152</u>	<u>33,710,750</u>
Changes in net assets	<u>8,650,249</u>	<u>26,697,182</u>	<u>35,347,431</u>
Net assets at beginning of year	114,345,426	107,056,840	221,402,266
Net assets at end of year	<u>\$ 122,995,675</u>	<u>\$ 133,754,022</u>	<u>\$ 256,749,697</u>

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Changes in net assets	\$ (18,443,670)	\$ 35,347,431
Adjustments to reconcile changes in net assets to net cash (used for) from operating activities		
Depreciation and amortization	8,992,377	8,864,739
Amortization of debt issuance cost	10,023	11,525
Realized and unrealized losses (gains) on investments	14,150,300	(35,242,164)
Change in value of split-interest agreements	230,894	(143,152)
Gifts for permanently restricted purposes	(4,806,381)	(2,852,354)
Gain on sale of assets	(195,041)	(440,230)
Postretirement benefit obligation related changes other than periodic costs	(247,106)	85,775
Changes in operating assets and liabilities		
Accounts receivable	(3,113,680)	(1,377,585)
Pledges receivable	(263,263)	105,470
Prepaid expenses and other assets	(201,456)	(167,822)
Accounts payable and accrued liabilities	(1,300,320)	(367,698)
Deferred tuition revenue and student deposits	(572,839)	(681,164)
Postretirement benefit obligation	(28,018)	(47,711)
Advances from government for student loans	(965,930)	(564,339)
Net cash (used for) from operating activities	<u>(6,754,110)</u>	<u>2,530,721</u>
Cash flows from investing activities		
Acquisitions of land, buildings, and equipment	(5,008,277)	(3,131,768)
Net proceeds from sale of assets	1,101,616	752,392
Changes in student notes receivable	794,808	719,077
Purchases of investments	(211,841,489)	(159,809,289)
Proceeds from sales of investments	212,477,111	160,046,947
Net cash used for investing activities	<u>(2,476,231)</u>	<u>(1,422,641)</u>
Cash flows from financing activities		
Proceeds from issuance of mortgage payable	-	691,913
Payments on note, mortgage, and bond payable	(749,872)	(767,252)
Payments on capital lease obligations	(1,787,707)	(1,719,019)
Gifts for permanently restricted purposes	4,806,381	2,852,354
Net cash from financing activities	<u>2,268,802</u>	<u>1,057,996</u>
Net change in cash and cash equivalents	(6,961,539)	2,166,076
Cash and cash equivalents at beginning of year	<u>12,856,825</u>	<u>10,690,749</u>
Cash and cash equivalents at end of year	<u>\$ 5,895,286</u>	<u>\$ 12,856,825</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 540,273	\$ 636,659
Supplemental disclosure of non-cash investing and financing activities		
Land, buildings, and equipment acquisitions in accounts payable	\$ 159,817	\$ 80,800

See accompanying notes to financial statements.

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 University, founded in 1830 and located in Bexley, Ohio, currently enrolls approximately 2,800 students in undergraduate, graduate, and postgraduate programs.

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

Basis of Presentation: The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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 explicit donor-imposed stipulations. The governing board ("Board of Trustees") 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 in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The University considers financial instruments with a maturity of three months or less when purchased to be cash equivalents.

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, investment expenses, 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued):

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. The Board of Trustees appropriates a percentage of the net appreciation on endowment accounts as is prudent considering the University's present and anticipated financial requirements, expected total return on investments, market price trends, and general economic conditions, unless directed by the donor's intent. The endowment spending policy is based on a spending rate established by the governing board. This rate represents the expected long-term return on endowment investments less an allowance for the preservation and growth of principal.

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 consist of tuition, room and board, 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 historical collection results as well as current business and economic conditions. Accounts receivable also include balances due from grants and contracts.

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 buildings 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:

Buildings	30 - 70 years
Building improvements	20 years
Equipment	3 - 30 years
Improvements other than buildings	20 years
Library books	20 years

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Buildings, Equipment, and Depreciation and Amortization (Continued):

The University's collections of art, which are acquired through purchases and contributions, are not recognized as assets in the financial statements. These collections are protected and preserved for public exhibition, education, and the furtherance of public service. The University's collections policy requires that the proceeds from the sale of collection items be used for the acquisition of new collections and for the direct care of existing collections. Direct care expenses include costs associated with the conservation, preservation, registration, storage, and safeguarding of the University's collection. Purchases of collection items are recorded as decreases in the appropriate net asset classes in the year in which the items are acquired. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

The carrying value of the University's long-lived assets is reviewed for impairment whenever events or changes in circumstances suggest that the assets may be impaired or that the remaining useful 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, 2022 and 2021, management believes no impairments existed.

Advances from Government for Student Loans: Funds provided by the United States government under the Federal Perkins Loan Program, Nursing Student Loan Program, and Nurse Faculty Loan Program are loaned to qualified students. These funds are ultimately refundable to the government and are recorded as a liability in the accompanying financial statements. The Federal Perkins Loan Program has been terminated by the federal government and is in a wind down period. No additional disbursements to students are allowed and the University must return excess cash balances to the federal government annually, as requested by the federal government.

Contributions and Expiration of Donor-Imposed Restrictions: Contributions received, including unconditional promises to give ("pledges receivable"), are recognized as revenue in the period received and are recorded as without donor restrictions or with donor restrictions depending on the absence or existence of any donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair market value at the time of donation. 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. 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.

Other Activities: The University has defined other activities to include non-operating activities, 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.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Activities (Continued):

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

Private gifts restricted for endowment: Gifts restricted by the donor or the Board of Trustees 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: Revenue is recognized as performance obligations are satisfied, which are determined based on the nature of the services and goods provided.

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.

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 substantially met. Federal and state contracts and grants are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. At June 30, 2022, there were no contributions or federal grants which had been received in advance, nor were there any contributions or federal grants which were not recognized because the conditions had not yet been met.

To provide initial funding for capital improvements to the University's dining service facilities, the service provider committed to provide a total of \$2,500,000 as an advance to the University to be amortized over a 10-year period. If the agreement expires or is terminated for any reason prior to June 30, 2028, the University must pay to the service provider the remaining balance in full. As of June 30, 2022 and 2021, the balance of the advance included in other accrued liabilities was \$1,358,738 and \$1,516,916, respectively. The amortization of this liability is recognized as private gifts and grants without donor restrictions in the Statements of Activities.

Insurance Reserves: The University is self-insured for certain losses relating to employee medical benefit claims and has purchased stop-loss insurance coverage to limit financial exposure to such claims. Medical benefit liabilities are estimated based on actual claims filed and estimates of claims incurred but not reported and by considering known trends and projections of future claims. The amounts actually incurred may vary from these estimates.

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

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Tax (Continued):

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, 2022 and 2021.

Reclassifications: Certain prior year balances have been reclassified to conform with the current year presentation. These reclassifications had no effect on net assets or the changes in net assets.

Subsequent Events: Management has evaluated subsequent events through October 6, 2022, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	2022	2021
Invested cash	\$ 4,346,406	\$ 1,583,091
U.S. government and government agencies	237,568	246,440
Corporate bonds	156,685	168,568
Mutual funds - equities	390,652	469,935
Exchange traded funds	17,968,217	20,974,409
Common trust funds	102,794,792	114,321,413
Private equity funds	11,988,847	13,106,587
	\$ 137,883,167	\$ 150,870,443

The composition of investment return is as follows:

	2022	2021
Investment income (interest and dividends)	\$ 651,125	\$ 376,690
Investment expenses	(747,214)	(603,415)
Net realized and unrealized gains and (losses)	(14,150,300)	35,242,164
Total investment return	(14,246,389)	35,015,439
Investment return included in revenues	(4,661,151)	(4,800,908)
Investment return included in other activities	\$ (18,907,540)	\$ 30,214,531

(Continued)

NOTE 2 – INVESTMENTS (Continued)

The University reports certain assets and liabilities at fair value in the financial statements. 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 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 three levels of the fair value hierarchy under accounting guidance for fair value measurements are described as follows:

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 in active markets; quoted prices for identical or similar assets or liabilities 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 asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

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).

For 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 19 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 between 4 to 11 years as of June 30, 2022. 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 \$2,271,097 and \$3,061,322 at June 30, 2022 and 2021, respectively.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 held by others 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 was 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, 2022 are summarized below:

	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 4,346,406	\$ -	\$ -	\$ 4,346,406
U.S. government and government agencies	237,568	-	-	237,568
Corporate bonds	156,685	-	-	156,685
Mutual funds - equities	390,652	-	-	390,652
Exchange traded funds	17,968,217	-	-	17,968,217
Total assets in the fair value hierarchy	23,099,528	-	-	23,099,528
Funds measured at NAV:				
Common trust funds				102,794,792
Private equity funds				11,988,847
Total investments				137,883,167
Beneficial interests in perpetual trusts				
	-	-	8,571,152	8,571,152

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 – INVESTMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2021 are summarized below:

	2021			
	Level 1	Level 2	Level 3	Total
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

There were no significant transfers in and out of the various levels during the periods ending June 30, 2022 or 2021.

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

In 2018, the University entered into an agreement for a commercial property Joint Venture with a Developer to develop, finance, and manage a Class-A multi-family apartment building, on a one-acre parcel of land owned by the University at the corner of Grant and Oak Streets in downtown Columbus. In 2020, an Ohio limited liability company, Pizzuti South Grant Apartments LLC (the "Company"), was formed to be the operating entity for the Joint Venture. The University contributed the land, valued at \$1,500,000, as its capital contribution, for a 50% equity interest in the Company. The Developer financed and guaranteed all debt associated with the Joint Venture. The University's financial commitment to the Company was limited to its initial contribution of land. Each partner receives a base preferred return of 6% in proportion to its respective capital contribution. Once the preferred returns are made, each partner receives 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 receives 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, are split equally between the University and the Developer. Construction on the project began in May 2020 and was completed in April 2022, at which point leasing of the apartments commenced.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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

The following table presents unaudited summarized financial information of the non-consolidated equity method joint venture as of, and for the years ended, June 30. The summarized amounts included below represent 100% of the results of operations of the entity. Losses are included in investment return in the Statements of Activities.

	2022	2021
Total assets	\$ 38,223,609	\$ 15,826,981
Total liabilities	28,834,638	5,273,553
Total revenue	\$ 41,687	\$ -
Total expenses	1,206,144	23,345

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2022	2021
Gross:		
Less than one year	\$ 298,500	\$ 126,431
One to five years	750,482	676,982
More than five years	51,000	51,500
	1,099,982	854,913
Less: discount for present value	(48,747)	(66,941)
Total	\$ 1,051,235	\$ 787,972

The amounts are recorded at the present value of future cash flows based on discount rates ranging from 2.9% to 5.0%. Management has determined that no allowance for uncollectible promises is necessary. Most unconditional promises are restricted for endowments.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consists of the following:

	2022	2021
Land	\$ 15,847,660	\$ 16,068,968
Buildings	123,992,938	123,675,766
Building improvements	43,230,535	42,251,367
Equipment	42,517,765	41,284,014
Improvements other than buildings	12,822,027	12,405,363
Library books	15,807,741	17,572,895
Construction in progress	1,459,468	216,760
	255,678,134	253,475,133
Accumulated depreciation and amortization	(144,284,604)	(137,549,303)
	\$ 111,393,530	\$ 115,925,830

Depreciation and amortization expense was \$8,992,377 and \$8,864,739 for the years ended June 30, 2022 and 2021, respectively.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 6 – SHORT-TERM BORROWINGS

The University has a \$10,000,000 unsecured line of credit agreement with a bank. Advances bear interest at the Secured Overnight Financing Rate ("SOFR") plus 1.10%. There were no draws during the years ended June 30, 2022 and 2021 and there were no outstanding balances at June 30, 2022 and 2021. The expiration date of the agreement is May 31, 2023.

NOTE 7 – NOTE, MORTGAGE, AND BOND PAYABLE

The University had the following notes, mortgage, and bond payable at June 30, 2022 and 2021:

	2022	2021
Note payable	\$ 53,257	\$ 56,215
Bond payable	294,999	349,999
Mortgage payable	-	691,914
	\$ 348,256	\$ 1,098,128

In October 2014, the University entered into a promissory note agreement ("note payable") 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 November 2017, as part of the reunion between the University and Trinity Lutheran Seminary (the "Seminary"), which was completed on January 1, 2018, the University assumed the bond obligation ("bond payable") 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.

In July 2016, the University entered into a mortgage agreement ("mortgage payable") with a bank as a result of acquiring the president's house. In June 2021, the mortgage was refinanced with another bank. In December 2021, the University sold the property and extinguished the outstanding mortgage payable.

NOTE 8 – CAPITALIZED LEASE OBLIGATIONS PAYABLE

The University had the following capitalized lease obligations at June 30, 2022 and 2021:

	2022	2021
Capital University 2013 Project	\$ 2,865,000	\$ 2,985,000
Capital University 2015 Project	21,165,856	22,827,355
Other	273,149	-
	24,304,005	25,812,355
Less: unamortized debt issuance cost	(59,325)	(69,348)
	\$ 24,244,680	\$ 25,743,007

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 8 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

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 79% of SOFR plus 95 basis points and 70% of LIBOR plus 85 basis points at June 30, 2022 and 2021, respectively. The variable rate at June 30, 2022 and 2021 was 1.80% and 0.93%, respectively. The obligation is due December 1, 2031 with an interest rate reset date of May 1, 2024. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with a bank.

At June 30, 2022, future principal payments by year and in the aggregate under the capital lease obligations consist of the following:

2023		\$ 2,053,808
2024		2,120,382
2025		2,069,850
2026		2,147,947
2027		2,236,206
Thereafter		13,675,812
		\$ 24,304,005

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

	2022	2021
Cost	\$ 81,764,647	\$ 81,485,290
Accumulated amortization	(41,082,093)	(38,638,152)
	\$ 40,682,554	\$ 42,847,138

The interest rate on the 2013 Project lease for the years ended June 30, 2022 and 2021 was 2.05%. Total interest and fees paid and expensed under this lease for the years ended June 30, 2022 and 2021 was \$60,854 and \$63,471, respectively.

The average interest rate on the 2015 Project lease for the years ended June 30, 2022 and 2021 was 1.08% and 0.96%, respectively. Total interest and fees paid and expensed under the lease for the years ended June 30, 2022 and 2021 were \$235,987 and \$225,382, respectively.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 8 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

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

On October 1, 2022, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission which lease serves as security for the Commission's issuance of \$37,110,000 in Higher Educational Facility Revenue Bonds ("Capital University 2022 Project") at par value with a net original issue premium of \$362,191, interest rates ranging from 5.00% to 6.00%, and final maturity on September 1, 2052. The proceeds of the Capital University 2022 Project bonds will be used to (i) refund the outstanding principal amounts of the 2013 and 2015 Capital University Projects bonds totaling \$23,970,856, (ii) provide \$13,035,000 to finance the acquisition, construction, furnishing, and equipping of improvements to the University's physical plant, and (iii) pay costs of issuance of the Capital University 2022 Project bonds. The University has provided a general pledge of its revenues as collateral for the Capital University 2022 Project bonds.

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 and in conjunction with the refinancing of the 2006 Bonds and issuance of the 2015 Bonds, the University entered into a future interest rate swap agreement for a portion of its 2015 variable rate debt 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. On May 2, 2022, the University exercised an early termination option to terminate the interest rate swap agreement. For the years ended June 30, 2022 and 2021, the University recorded unrecognized gain on the position of \$257,004 and \$314,513, respectively, which is included in investment return in the Statements of Activities. The fair value of \$257,004 as of June 30, 2021 is included in accrued liabilities in the Statements of Financial Position.

NOTE 10 – FINANCIAL ASSETS AND LIQUIDITY

The following table reflects the University's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general expenditures within one year:

	2022	2021
Financial Assets		
Cash and cash equivalents	\$ 5,895,286	\$ 12,856,825
Accounts and notes receivable	8,963,085	6,644,213
Pledges receivable	1,051,235	787,972
Contributions receivable from remainder trusts	492,844	636,611
Beneficial interests in perpetual trusts	8,571,152	10,117,856
Investments	137,883,167	150,870,443
Financial assets, at year-end	\$ 162,856,769	\$ 181,913,920
Less those not available for general expenditures within one year:		
Accounts and notes receivable collectible beyond one year	\$ (1,615,757)	\$ (2,410,565)
Pledges receivable restricted by donor	(995,235)	(701,472)
Donor-restricted endowment funds	(96,901,200)	(105,259,646)
Board-designated endowment funds	(15,428,035)	(17,447,291)
Investments held in trust and annuity reserves	(9,226,024)	(11,080,927)
Financial assets available to meet cash needs for general expenditures within one year	\$ 38,690,518	\$ 45,014,019

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 10 – FINANCIAL ASSETS AND LIQUIDITY (Continued)

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 \$16,142,833 as of June 30, 2022. 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 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. Expenses reported by functional categories include allocations of depreciation, 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.

Functional expenses by natural classification for the year ended June 30, 2022:

	Program Activities		Supporting Activities		Total Expense
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	
Salaries and employee benefits	\$ 33,115,415	\$ 5,198,227	\$ 1,610,228	\$ 2,636,745	\$ 42,560,615
Services, supplies, and other operating expenses	10,086,355	4,973,451	472,112	44,848	15,576,766
Occupancy, utilities, and maintenance	311,033	174,578	-	6,577,100	7,062,711
COVID-19 CARES Act Emergency Relief Fund for Students	3,301,336	-	-	-	3,301,336
Depreciation and amortization	8,587,720	359,695	44,962	-	8,992,377
Interest expense	563,877	23,618	2,952	-	590,447
	<u>55,965,736</u>	<u>10,729,569</u>	<u>2,130,254</u>	<u>9,258,693</u>	<u>78,084,252</u>
Facilities operation and maintenance	<u>8,842,052</u>	<u>370,348</u>	<u>46,293</u>	<u>(9,258,693)</u>	<u>-</u>
Total expenses	<u>\$ 64,807,788</u>	<u>\$ 11,099,917</u>	<u>\$ 2,176,547</u>	<u>\$ -</u>	<u>\$ 78,084,252</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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	
Salaries and employee benefits	\$ 32,782,508	\$ 5,769,533	\$ 1,764,067	\$ 2,746,769	\$ 43,062,877
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>

NOTE 12 – PENSION PLAN

The University contributed \$1,907,441 and \$2,029,486 during the years ended June 30, 2022 and 2021, respectively, to a Section 403(b) tax-sheltered annuity retirement plan for eligible members of the faculty and staff. The benefits provided are on a defined contribution method based on a percentage of compensation. For eligible employees who have worked at least 1,000 hours per year, the University may elect to make a discretionary contribution to participants' accounts. Such contributions are allocated to eligible participants as a uniform percentage of the participant's compensation. The University's discretionary contribution to all eligible employees who worked between one year and five years was 5% and for employees who worked more than five years was 9% for the years ended June 30, 2022 and 2021.

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.

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 13 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

The following table sets forth the funded status:

	<u>2022</u>	<u>2021</u>
Accumulated benefit obligation		
Accumulated benefit obligation	\$ (1,049,285)	\$ (1,324,409)
Fair value of plan assets	-	-
	<u>\$ (1,049,285)</u>	<u>\$ (1,324,409)</u>

The following table sets forth the activities related to this obligation:

	<u>2022</u>	<u>2021</u>
Accrued benefit cost		
Beginning of year balance	\$ (1,324,409)	\$ (1,286,345)
Interest cost	(36,421)	(35,374)
Service cost	(32,623)	(32,325)
Net periodic pension cost	<u>(69,044)</u>	<u>(67,699)</u>
Employer benefit payments	97,062	115,410
Postretirement benefit obligation related changes other than periodic cost	<u>247,106</u>	<u>(85,775)</u>
	<u>\$ (1,049,285)</u>	<u>\$ (1,324,409)</u>

Net periodic pension expenses for the year ending June 30, 2023 are expected to be \$55,451. Contributions expected to be made next year are approximately \$91,224. 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 \$(195,627) and \$64,973 at June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Discount rate	4.50%	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	2026	2025

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 13 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

Future benefit payments are projected as follows:

2023	\$	91,224
2024		118,491
2025		145,637
2026		126,726
2027		109,510
2028-2032		546,682

NOTE 14 – NET ASSETS

Net assets without donor restrictions as of June 30, 2022 and 2021 comprise the following:

	2022	2021
Net Assets Without Donor Restrictions:		
Undesignated	\$ 9,948,925	\$ 15,309,829
Investment in joint venture	886,687	1,468,916
Board-designated endowment	16,142,833	18,119,450
Federal loan program funds	396,917	526,342
Net investment in property and equipment	85,441,856	87,571,138
Total net assets without donor restrictions	\$ 112,817,218	\$ 122,995,675

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

	2022	2021
Net Assets With Donor Restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	\$ 1,979,180	\$ 1,769,686
Academic, student programs, and support	9,889,963	8,799,328
Plant and equipment	2,140,174	1,804,521
	14,009,317	12,373,535
Subject to passage of time:		
Contributions receivable from third party trusts	287,495	337,958
Split interest agreements	834,682	1,015,113
	1,122,177	1,353,071
Subject to the University's spending policy and appropriation:		
Accumulated gains and term endowments	19,896,645	32,102,477
Endowment funds restricted in perpetuity	80,833,192	76,803,221
	100,729,837	108,905,698
Not subject to spending policy and appropriation:		
Perpetual trusts held by others	8,571,152	10,117,856
Loan funds	1,056,326	1,003,862
	9,627,478	11,121,718
Total net assets with donor restrictions	\$ 125,488,809	\$ 133,754,022
Total	\$ 238,306,027	\$ 256,749,697

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 generally accepted accounting principles, 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.

Endowment net asset composition by type of fund and endowment-related activity as of and for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total Funds
Board-designated funds	\$ 16,142,833	\$ -	\$ 16,142,833
Donor-restricted funds:			
Accumulated gains	-	19,896,645	19,896,645
Original gift	-	89,366,748	89,366,748
	<u>\$ 16,142,833</u>	<u>\$ 109,263,393</u>	<u>\$ 125,406,226</u>
Endowment net assets, beginning of year	\$ 18,119,450	\$ 118,807,448	\$ 136,926,898
Investment return	(1,507,694)	(9,768,544)	(11,276,238)
Contributions	759,409	4,225,481	4,984,890
Appropriation of endowment assets for operating expenditure	(672,159)	(3,988,992)	(4,661,151)
Appropriation of endowment assets for capital expenditure	(981,098)	-	(981,098)
Transfer of proceeds from sale of assets	424,925	-	424,925
Transfer of unspent endowment appropriation	-	(12,000)	(12,000)
	<u>\$ 16,142,833</u>	<u>\$ 109,263,393</u>	<u>\$ 125,406,226</u>

(Continued)

CAPITAL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 15 – ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund and endowment-related activity as of and for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total Funds
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
	\$ 18,119,450	\$ 118,807,448	\$ 136,926,898
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 operating 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
	\$ 18,119,450	\$ 118,807,448	\$ 136,926,898
Endowment net assets, end of year	\$ 18,119,450	\$ 118,807,448	\$ 136,926,898

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.

(Continued)

NOTE 15 – ENDOWMENT COMPOSITION (Continued)

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.

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, 2022, funds with original gift values of \$15,204,065, fair values of \$13,988,361, and deficiencies of \$1,215,704 were reported in net assets with donor restrictions. 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. 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 and contracts. 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.

Contractual commitments remaining under ongoing and planned construction projects approximated \$943,000 and \$789,000 at June 30, 2022 and 2021, respectively.

(Continued)

NOTE 17 – RELATED PARTY TRANSACTIONS

Members of the Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interest in entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she or an immediate family member has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring the recusal of the conflicted trustee and that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws.

NOTE 18 – 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, it is unknown how long the adverse conditions associated with the COVID-19 pandemic will last and what the complete financial effect will be to the University.

NOTE 19 – 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) \$0 and \$4,529,070 in the years ending June 30, 2022 and 2021, respectively, to be provided directly to students in the form of emergency grants ("Student Portion") and (2) \$0 and \$5,751,213 in the years ending June 30, 2022 and 2021, 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, 2022 and 2021, the University recognized a total of \$7,098,836 and \$5,158,315 of grant revenues, respectively.

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 recognized the revenues for the year then ended.

(Continued)