



Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

Heidelberg University

June 30, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Heidelberg University
Tiffin, Ohio

We have audited the accompanying financial statements of Heidelberg University (University), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses 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 auditor considers 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 Heidelberg University as of June 30, 2020 and 2019, 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.

BKD, LLP

Fort Wayne, Indiana
November 18, 2020

Heidelberg University

Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 6,686,536	\$ 5,906,751
Restricted cash and cash equivalents for construction projects	-	22,221,529
Student accounts receivable, net of allowance of \$1,155,689 and \$1,283,247 in 2020 and 2019	1,378,792	1,676,492
Contributions receivable, net of allowance of \$92,300 in 2020 and 2019	1,213,885	1,660,293
Grants receivable	1,199,136	956,715
Inventories	62,557	64,621
Prepaid expenses and other assets	1,096,034	911,479
Notes receivable, net of allowance of \$113,676 in 2020 and 2019	1,431,764	1,714,800
Investments	59,125,427	59,593,075
Property and equipment	71,613,780	64,980,864
Beneficial interest in perpetual trusts	4,640,614	4,618,273
	\$ 148,448,525	\$ 164,304,892
Total assets		
Liabilities		
Accounts payable	\$ 1,683,718	\$ 950,816
Line of credit	-	2,532,678
Accrued liabilities	2,936,614	2,768,804
Deposits and funds held for others	423,246	525,260
Deferred income	4,818,470	4,824,669
Annuities and trusts payable	1,185,533	674,053
Accrued postretirement health care benefits	269,226	269,226
Debt and capital lease obligations	20,141,650	36,294,733
Refundable advance for Paycheck Protection Program	2,574,135	-
Advances for federal loans	1,039,331	1,330,750
	35,071,923	50,170,989
Total liabilities		
Net Assets		
Without donor restriction	51,366,153	51,604,763
With donor restriction	62,010,449	62,529,140
	113,376,602	114,133,903
Total net assets		
Total liabilities and net assets	\$ 148,448,525	\$ 164,304,892

Heidelberg University
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Revenue, Income and Other Support			
Net tuition and fees	\$ 15,537,947	\$ -	\$ 15,537,947
Auxiliary enterprises	7,719,276	-	7,719,276
Grants and contracts	2,246,878	-	2,246,878
Private gifts, grants and bequests	1,458,039	2,616,057	4,074,096
Investment return designated for current operations	1,866,374	444,740	2,311,114
Other	2,247,256	759,545	3,006,801
Change in value of split-interest agreements	-	(589,368)	(589,368)
	<u>31,075,770</u>	<u>3,230,974</u>	<u>34,306,744</u>
Net assets released from restrictions, operating	1,597,052	(1,597,052)	-
Total revenues, income and other support	<u>32,672,822</u>	<u>1,633,922</u>	<u>34,306,744</u>
Expenses			
Instruction	11,305,486	-	11,305,486
Research	1,286,777	-	1,286,777
Academic support	1,523,465	-	1,523,465
Student services	7,318,306	-	7,318,306
Auxiliary enterprises	4,539,428	-	4,539,428
Institutional support	6,724,488	-	6,724,488
Fundraising	1,084,823	-	1,084,823
Total expenses	<u>33,782,773</u>	<u>-</u>	<u>33,782,773</u>
Change in Net Assets Before Other Activities	<u>(1,109,951)</u>	<u>1,633,922</u>	<u>523,971</u>
Other Activities			
Investment return less amounts designated for current operations	796,234	(2,077,506)	(1,281,272)
Net assets released from restriction, capital	75,107	(75,107)	-
	<u>871,341</u>	<u>(2,152,613)</u>	<u>(1,281,272)</u>
Change in Net Assets	<u>(238,610)</u>	<u>(518,691)</u>	<u>(757,301)</u>
Net Assets, Beginning of Year	<u>51,604,763</u>	<u>62,529,140</u>	<u>114,133,903</u>
Net Assets, End of Year	<u>\$ 51,366,153</u>	<u>\$ 62,010,449</u>	<u>\$ 113,376,602</u>

2019

Without Donor Restriction	With Donor Restriction	Total
\$ 15,369,494	\$ -	\$ 15,369,494
9,682,527	-	9,682,527
1,475,431	-	1,475,431
1,499,106	5,863,730	7,362,836
1,464,234	749,197	2,213,431
499,556	1,454,218	1,953,774
-	(27,494)	(27,494)
29,990,348	8,039,651	38,029,999
4,159,420	(4,159,420)	-
34,149,768	3,880,231	38,029,999
12,029,950	-	12,029,950
1,237,197	-	1,237,197
2,870,822	-	2,870,822
8,193,622	-	8,193,622
5,025,067	-	5,025,067
6,279,527	-	6,279,527
1,043,783	-	1,043,783
36,679,968	-	36,679,968
(2,530,200)	3,880,231	1,350,031
450,634	(1,199,831)	(749,197)
3,700,851	(3,700,851)	-
4,151,485	(4,900,682)	(749,197)
1,621,285	(1,020,451)	600,834
49,983,478	63,549,591	113,533,069
\$ 51,604,763	\$ 62,529,140	\$ 114,133,903

Heidelberg University

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Activities					Support Activities			2020	
	Instruction	Research	Academic Support	Student Services	Auxiliary Enterprises	Total Program	Institutional Support	Fundraising	Total Support	Total Expenses
Salaries and wages	\$ 6,325,400	\$ 541,469	\$ 727,667	\$ 3,178,337	\$ 535,180	\$ 11,308,053	\$ 2,064,027	\$ 607,589	\$ 2,671,616	\$ 13,979,669
Employee benefits	2,624,584	224,671	301,929	1,318,780	222,061	4,692,025	883,720	224,808	1,108,528	5,800,553
Accounting	-	-	-	-	-	-	86,079	-	86,079	86,079
Emergency relief payments	-	-	-	282,050	-	282,050	-	-	-	282,050
Advertising and promotion	5,552	-	3,569	75,089	-	84,210	45,383	261	45,644	129,854
Conferences/conventions/meetings	112,071	884	14,265	222,540	126,165	475,925	89,911	11,061	100,972	576,897
Information technology	17,733	-	61,416	96,826	8,147	184,122	494,301	-	494,301	678,423
Insurance	1,280	5	10	28	20	1,343	373,736	-	373,736	375,079
Legal	244	30	61	172	121	628	53,470	-	53,470	54,098
Licenses and fees	26,424	1,578	6,372	57,277	6,457	98,108	106,268	6,452	112,720	210,828
Management	402,966	155,037	32,383	441,072	2,429,109	3,460,567	110,029	67,794	177,823	3,638,390
Membership and subscriptions	27,114	482	3,900	52,700	1,595	85,791	144,390	807	145,197	230,988
Occupancy	109,019	63,859	37,636	102,648	164,242	477,404	161,073	3,320	164,393	641,797
Office expenses	551,326	132,039	69,749	480,977	490,543	1,724,634	828,558	60,067	888,625	2,613,259
Travel	95,503	28,789	13,751	300,935	4,722	443,700	23,300	24,707	48,007	491,707
Utilities	398,676	64,037	100,466	282,071	248,804	1,094,054	558,636	-	558,636	1,652,690
Interest	23,653	2,895	3,139	15,501	11,763	56,951	15,810	1,757	17,567	74,518
Depreciation & amortization	583,941	71,002	147,152	411,303	290,499	1,503,897	685,797	76,200	761,997	2,265,894
Totals	\$ 11,305,486	\$ 1,286,777	\$ 1,523,465	\$ 7,318,306	\$ 4,539,428	\$ 25,973,462	\$ 6,724,488	\$ 1,084,823	\$ 7,809,311	\$ 33,782,773

Heidelberg University

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Activities						Support Activities			2019
	Instruction	Research	Academic	Student	Auxiliary	Total	Institutional	Fundraising	Total	Total
			Support	Services	Enterprises	Program			Support	
Salaries and wages	\$ 6,310,871	\$ 562,569	\$ 1,163,555	\$ 3,674,161	\$ 528,093	\$ 12,239,249	\$ 1,792,175	\$ 775,884	\$ 2,568,059	\$ 14,807,308
Employee benefits	2,326,625	207,402	428,967	1,354,550	194,692	4,512,236	946,764	-	946,764	5,459,000
Accounting	-	-	-	-	-	-	565,084	-	565,084	565,084
Advertising and promotion	3,479	9	18	217,167	37	220,710	12,562	882	13,444	234,154
Conferences/conventions/meetings	107,416	361	24,615	143,327	182,507	458,226	44,257	68,446	112,703	570,929
Information technology	6,665	-	451,217	5,368	(58)	463,192	56,476	-	56,476	519,668
Insurance	1,502	5	10	28	20	1,565	371,170	-	371,170	372,735
Legal	4,225	4,612	1,065	2,976	2,102	14,980	38,814	-	38,814	53,794
Licenses and fees	31,838	1,574	8,905	58,288	6,441	107,046	109,792	12,698	122,490	229,536
Management	67,056	31,186	20,258	496,074	23,246	637,820	36,604	21,209	57,813	695,633
Membership and subscriptions	11,239	505	19,045	33,448	954	65,191	175,713	3,968	179,681	244,872
Occupancy	127,036	52,075	57,408	134,050	239,414	609,983	182,515	3,967	186,482	796,465
Office expenses	1,364,479	158,603	237,809	782,675	3,137,976	5,681,542	296,210	135,541	431,751	6,113,293
Travel	345,134	45,245	86,063	358,032	12,088	846,562	79,055	21,188	100,243	946,805
Utilities	485,775	75,549	161,157	344,080	281,269	1,347,830	633,898	-	633,898	1,981,728
Interest	256,738	26,995	64,603	180,961	127,811	657,108	181,751	-	181,751	838,859
Depreciation & amortization	579,872	70,507	146,127	408,437	288,475	1,493,418	756,687	-	756,687	2,250,105
Totals	\$ 12,029,950	\$ 1,237,197	\$ 2,870,822	\$ 8,193,622	\$ 5,025,067	\$ 29,356,658	\$ 6,279,527	\$ 1,043,783	\$ 7,323,310	\$ 36,679,968

Heidelberg University

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ (757,301)	\$ 600,834
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	2,286,524	2,250,106
Contributions restricted for long-term investment	(1,947,585)	(984,615)
Contributions restricted for capital asset purchases	(412,681)	(4,777,224)
Cash received for long-lived assets and long-term investment	(520,402)	-
Realized and unrealized losses (gains) on investments	96,918	(205,595)
Provisions for bad debts	(89,344)	-
Changes in		
Grants and student accounts receivable	144,623	102,168
Contributions receivable, including remainder trusts	446,408	25,514
Notes receivable	283,036	310,297
Prepaid expenses and other assets	(184,555)	(160,018)
Inventories	2,064	54,975
Beneficial interest in perpetual trusts	(22,341)	(68,245)
Accounts payable	(241,816)	58,998
Accrued liabilities	167,810	(2,492,295)
Deposits and funds held for others	(102,014)	154,183
Deferred income	(6,199)	1,223,119
Annuities and trusts payable	511,480	(28,691)
Refundable advance for Paycheck Protection Program	2,574,135	-
Advances for federal loans	(291,419)	57,246
Net cash provided by (used in) operating activities	1,937,341	(3,879,243)
Investing Activities		
Purchase of property and equipment	(7,924,092)	(3,327,119)
Purchase of investments	(31,689,548)	(27,896,295)
Sales and maturities of investments	32,060,278	26,086,708
Net cash used in investing activities	(7,553,362)	(5,136,706)
Financing Activities		
Payments on long-term debt and capital lease obligations	(36,704,863)	(15,039,987)
Proceeds from long term debt	20,531,150	36,632,386
Gross borrowings under line-of-credit agreement	2,967,322	3,819,678
Gross repayments under line-of-credit agreement	(5,500,000)	(1,287,000)
Proceeds from contributions restricted for capital asset purchase	412,681	4,777,224
Proceeds from contributions restricted for long-term investment	1,947,585	984,615
Proceeds from cash restricted for long-lived assets and long-term investment	520,402	-
Net cash (used in) provided by financing activities	(15,825,723)	29,886,916
Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	(21,441,744)	20,870,967
Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	28,128,280	7,257,313
Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	\$ 6,686,536	\$ 28,128,280
Cash and cash equivalents	\$ 6,686,536	\$ 5,906,751
Restricted cash and cash equivalents for construction projects	-	22,221,529
Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	\$ 6,686,536	\$ 28,128,280
Supplemental Cash Flows Information		
Interest paid	\$ 75,517	\$ 830,863
Property and equipment purchases in accounts payable	1,200,024	225,306

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Heidelberg University (University) was incorporated as a not-for-profit organization in 1850, under the laws of the state of Ohio. The University is an independent, church-related, liberal arts educational institution offering undergraduate and graduate degrees. The primary sources of revenue are from tuition and auxiliary services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. The University's cash equivalents consisted primarily of overnight sweep accounts. At June 30, 2020, the University's cash accounts exceeded federally insured limits by approximately \$6,000,000.

Cash and cash equivalents that are awaiting longer-term investing have been classified as investments.

Restricted Cash and Cash Equivalents for Construction Projects

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with a lender to fund the restoration and renovation of France Hall and Miller Hall, the construction of a new Student and Community Welcome Center, the construction of new townhouse apartments for student housing, and the renovation of The Little Theatre, Frost Lecture Hall, and the Media Communication Center.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

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

Derivative Financial Instruments

The University engages in derivative activities involving equity options. The University writes call and put options on various equity securities. These derivatives are primarily used to generate trading revenue and income and to a lesser extent to hedge against changes in equity prices. These derivative instruments do not qualify for hedge accounting and are accounted for at fair value. The call options are covered due to the University owning the equity securities that the options are written against. The written put options expose the University to a potential commitment to purchase the underlying equity securities at expiration of the option contract. The University's open contract written put commitments are insignificant at June 30, 2020 and 2019.

Inventories

Inventories consist primarily of books and supplies and are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out (FIFO) method.

Income Taxes

The University is exempt from income taxes under Section 501 of the U.S. Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income. The University files tax returns in the U.S. federal jurisdiction. With few exceptions, the University is no longer subject to U.S. federal examinations by tax authorities for years before 2017.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The University provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives.

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

Long-lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2020 and 2019.

Student Accounts and Notes Receivable

Student accounts receivable are stated at the amount of consideration from students, of which the University has an unconditional right to receive, less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Accounts that are past due without payments for three consecutive months, and have had no response to the due diligence process are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program (Program) and are stated at their outstanding principal amounts, net of an allowance for doubtful notes. The federal government guarantees all or a significant portion of loans issued under the Program. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Loans with a delinquent balance greater than 90 days and still accruing interest amount to approximately \$694,000 and \$663,000 at June 30, 2020 and 2019, respectively.

Net Assets

The University's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as without donor restrictions and with donor restrictions as follows:

- *Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. The net asset without donor restrictions class included assets and liabilities of the University and may be used at the discretion of management to support the University's purposes and operations.

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

- *Net Assets with Donor Restrictions* – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time or are to be maintained in perpetuity by the University. Unconditional promises to give that are due in future periods are classified as net assets with donor restrictions. Generally, the donors of assets with donor restrictions permit the University to use all or part of the income earned on related investments for general or specific purposes. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

Tuition and Auxiliary Services Revenue

Tuition revenue is recognized over the term of the semester as the University provides services to students. Revenue is reported at the amount of consideration which the University expects to be entitled in exchange for providing tuition and auxiliary services. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships and other price concessions provided to students.

Contributions

Contributions are provided to the University either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the University overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Deferred Revenue

Income from prepaid tuition is deferred and recognized over the periods to which the tuition relates.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The University records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Self-Insurance

The University has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims to \$150,000 each.

Government Grants

Support funded by grants is recognized as the University performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expense by function. Certain costs have been allocated among the program, institutional support and fund raising categories based on the estimates of time spent by University personnel and other methods.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net assets.

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

Note 2: Changes in Accounting Principle

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers (students) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The University adopted this standard on July 1, 2019, using a modified retrospective approach. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605 — *Revenue Recognition*. The University has applied the new standard to all contracts not complete at the date of adoption.

The University's adoption of Topic 606 did not result in a change to the timing of revenue recognition.

Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

Contributions Received and Contributions Made

As of July 1, 2019, the University adopted the FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, (ASU 2018-08) using a modified prospective method of adoption to all agreements that were not completed as of the July 1, 2019.

The intent of ASU 2018-08 is to assist an organization in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions, or if the transactions are considered reciprocal and should be accounted for as exchange transactions. Additionally, the revised guidance helps entities evaluate whether a contribution is conditional or unconditional.

The adoption has no impact on overall changes in net assets or net cash provided by operating activities.

Heidelberg University
Notes to Financial Statements
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Note 3: Contributions Receivable

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 718,174	\$ 533,900
Due within one to five years	664,800	1,299,545
Due greater than five years	<u>—</u>	<u>8,000</u>
	1,382,974	1,841,445
Less		
Allowance for uncollectible contributions	(92,300)	(92,300)
Unamortized discount (1.75%)	<u>(76,789)</u>	<u>(88,852)</u>
	<u>\$ 1,213,885</u>	<u>\$ 1,660,293</u>

Note 4: Conditional Gifts

The University has received the following conditional promises to give at June 30, 2020 and 2019 that are not recognized in the financial statements:

	<u>2020</u>	<u>2019</u>
Conditional promise to give upon the awarding of emergency grants to students	\$ 313,428	\$ —
Conditional promise to give upon the awarding of emergency grants to students and expenditures associated with disruption and delivery of instruction	313,428	—
Conditional promise to give upon meeting the requirements for forgiveness of the Paycheck Protection Program	<u>2,574,135</u>	<u>—</u>
	<u>\$ 3,200,991</u>	<u>\$ —</u>

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Note 5: Investments and Investment Return

The University's investments at fair value are as follows:

	2020	2019
Money market funds	\$ 12,127,260	\$ 9,497,849
U.S. Government and agency securities	10,052,810	9,621,563
Real estate and land contracts	—	1,401,408
Corporate bonds	3,718,163	3,558,661
Common stocks and mutual funds		
Consumer discretionary	3,772,108	4,013,543
Consumer staples	2,445,793	2,202,841
Energy	972,994	2,174,603
Financials	3,855,165	5,164,231
Health care	4,773,406	4,522,920
Industrials	3,073,209	4,038,788
Information technology	7,620,962	6,461,166
Materials	1,159,595	1,438,513
Real estate	1,101,910	1,477,460
Telecom services	3,226,885	2,873,023
Other	1,174,468	1,081,834
Private equity funds	<u>50,699</u>	<u>64,672</u>
Total	<u>\$ 59,125,427</u>	<u>\$ 59,593,075</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2020 and 2019:

	2020	2019
Dividends and interest	\$ 1,126,760	\$ 1,258,639
Net realized and unrealized (losses) gains on investments	<u>(96,918)</u>	<u>205,595</u>
Total return on investments	1,029,842	1,464,234
Investment return designated for current operations	<u>(2,311,114)</u>	<u>(2,213,431)</u>
Investment return less amounts designated for current operations	<u>\$ (1,281,272)</u>	<u>\$ (749,197)</u>

Heidelberg University
Notes to Financial Statements
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Note 6: Property and Equipment

The University's property and equipment are as follows:

	Depreciable Years	2020	2019
Buildings and improvements	10 – 50	\$ 89,717,581	\$ 88,886,641
Furnishings and equipment	5 – 10	<u>20,388,909</u>	<u>20,259,857</u>
		110,106,490	109,146,498
Accumulated depreciation		<u>(49,388,002)</u>	<u>(47,269,897)</u>
		60,718,488	61,876,601
Land and land improvements		2,311,649	2,195,879
Construction in progress		<u>8,583,643</u>	<u>908,384</u>
		<u>\$ 71,613,780</u>	<u>\$ 64,980,864</u>

Note 7: Beneficial Interest in Perpetual Trusts

The University is the beneficiary under various perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$4,640,614 and \$4,618,273, which represents the University's portion of the fair value of the trusts' assets at June 30, 2020 and 2019, respectively. The income from these trusts for 2020 and 2019 was \$22,341 and \$68,248, respectively.

Note 8: Line of Credit

The University had a \$3,000,000 revolving bank line of credit that expired in June 2020. There was \$2,532,678 borrowed against the line at June 30, 2019. There were no borrowings against the line at June 30, 2020 and the line was not renewed.

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Note 9: Debt and Capital Lease Obligations

Debt consists of the following:

	2020	2019
Note payable, due September 2020, payable in monthly installments of principal and interest of \$3,634 and one lump sum payment of \$3,673 on September 1, 2020, at 4.50%, secured by property	\$ 10,863	\$ 52,949
2020 United States of America acting through the Rural Housing Service of the United States Department of Agriculture, interest rate fixed at 2.75% through January 2060, interest-only payments due annually on January 7, 2021 and 2022, principal and interest payments due monthly beginning February 7, 2022, in the amount of \$129,210. Unamortized debt issuance costs were \$804,586 at June 30, 2020.	20,531,150	—
2019 Series County of Seneca, Ohio Economic Development Revenue Bond acting through the Rural Housing Service of the United States Department of Agriculture, interest-only payments during construction, construction estimated to be complete in 2022, interest fixed at 3.37%, maturing June 20, 2059. Unamortized debt issuance costs were \$825,216 at June 30, 2019 (retired January 2020)	—	36,500,000
Capital lease, due September 2019, payable in semi-annual installments of \$81,933 and one lump sum payment of \$485,068 at maturity, variable interest rate of one month LIBOR plus 1.78%, secured by certain related equipment	404,223	567,000
	20,946,236	37,119,949
Less: debt issuance costs	(804,586)	(825,216)
	\$ 20,141,650	\$ 36,294,733

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The future maturities of debt and payments on capital lease obligations are as follows:

	Debt (Excluding Leases)	Capital Lease Obligations
2021	\$ 10,863	\$ 176,439
2022	131,488	170,039
2023	317,626	82,545
2024	324,955	-
2025	335,542	-
Thereafter	19,421,539	-
	\$ 20,542,013	429,023
Less amount representing interest		(24,800)
Present value of future minimum lease payments		\$ 404,223

Property and equipment include the following under capital leases:

	2020	2019
Buildings and improvements	\$ 999,390	\$ 999,390
Furnishings and equipment	118,849	118,849
	1,118,239	1,118,239
Accumulated depreciation	(191,236)	(159,364)
	\$ 927,003	\$ 958,875

The 2019 Series bonds in the amount of \$36,500,000 were issued on June 18, 2019. The proceeds of the bonds are being used to fund the restoration and renovation of France Hall and Miller Hall, the construction of a new Student and Community Welcome Center, the construction of new townhouse apartments for student housing, and the renovation of The Little Theatre, Frost Lecture Hall, and the Media Communication Center as well as refinance prior debt obligations.

On January 7, 2020, the University entered into an agreement with the issuer, United States of America, acting through the Rural Housing Service, United States of America. Under the terms of the agreement, the issuer agreed to issue debt, Series 2020, in the aggregate amount of \$36,500,000. The proceeds from the issuance were used to refinance the 2019 Series Revenue bonds and provide funds for certain construction projects in progress. The Series 2020 was advanced in series with approximately \$15,000,000 advanced to refinance certain portions of the 2019 series and the remainder representing advances for construction. The remaining portion of the 2019 series bonds was paid off using previously unspent escrowed cash and cash equivalents that were set aside for construction projects in the accompanying statements of financial position.

The loan agreements contain certain covenants. As of June 30, 2020, management is not aware of any violations of these covenants.

Interest expense was \$75,517 and \$809,893 in 2020 and 2019, respectively.

Heidelberg University

Notes to Financial Statements

June 30, 2020 and 2019

Note 10: Annuities and Trusts Payable

The University has been the recipient of several gift annuities and charitable remainder trusts which require future payments to the donors or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2020 and 2019, of \$1,185,533 and \$674,053, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates between 1.00 percent and 6.00 percent.

Note 11: Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019, are restricted for the following purposes:

	2020	2019
Subject to expenditure for specified purpose		
Instruction	\$ 2,871,617	\$ 2,762,912
Academic support	364,271	584,129
Scholarships	879,276	940,557
Facilities and other	<u>1,023,115</u>	<u>1,174,127</u>
	<u>5,138,279</u>	<u>5,461,725</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Instruction	1,305,859	1,519,867
Academic support	967,821	1,112,202
Scholarships	3,015,938	3,444,801
Facilities	265,633	284,882
General	<u>2,186,107</u>	<u>2,374,425</u>
	7,741,358	8,736,177
Subject to endowment spending policy and appropriation		
Restricted by donors for		
Instruction	8,630,606	8,592,820
Academic support	5,315,643	5,166,778
Scholarships	25,763,557	24,967,039
Facilities	1,938,193	1,938,193
General	4,660,662	4,596,887
Underwater endowments	<u>(2,635,585)</u>	<u>(2,010,591)</u>
	<u>43,673,076</u>	<u>43,251,126</u>
Total endowments	<u>51,414,434</u>	<u>51,987,303</u>
Not subject to spending policy or appropriation		
Instruction	4,640,614	4,618,274
Academic support	220,088	254,052
Scholarships	<u>597,034</u>	<u>207,786</u>
	<u>5,457,736</u>	<u>5,080,112</u>
Total net assets with donor restrictions	<u>\$ 62,010,449</u>	<u>\$ 62,529,140</u>

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Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2020	2019
Purpose restrictions accomplished		
Instruction	\$ 501,736	\$ 891,383
Academic support	307,687	565,985
Scholarships	144,927	801,201
Other	642,702	1,900,851
	\$ 1,597,052	\$ 4,159,420

During 2020 and 2019, the University released \$75,107 and \$3,770,851, respectively, of restricted net assets for capital projects.

Note 12: Employee Benefits

The University has a defined-contribution pension plan administered by the Teachers Insurance and Annuity Association College Retirement Equities Fund. The Plan covers substantially all full-time administrative officers, faculty and certain staff. During 2020 and 2019, the Plan required employer contributions of 6 percent or 7 percent of employees' gross wages and individual contributions ranging from 0 percent to 4 percent. Employer benefit expense under this plan was \$731,444 and \$728,170 for 2020 and 2019, respectively.

Note 13: Postretirement Benefit Plan

The University sponsors a defined-benefit postretirement plan that covers both salaried and nonsalaried employees. The Plan provides postretirement health care coverage to eligible retirees and certain eligible employees. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. In October 2006, the Board of Trustees limited the eligibility for current University employees. As such, all employees of the University who as of November 1, 2006, will be age 59½ or older, have worked for a minimum of ten years and were currently enrolled in the University's health care plan will be eligible to participate in the Medicare Supplement Plan upon retirement. Those employees who do not meet all of the eligibility requirements noted above will not be able to participate in the Medicare Supplement Plan for retirees. Additionally, the University's contribution will be capped at \$100 per month, per individual, whereas the University previously paid 40 percent of the premium.

Heidelberg University

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The University uses a June 30 measurement date for the plan. Information about the plan's funded status follows:

	Pension Benefits	
	2020	2019
Benefit obligation at end of year	\$ (269,226)	\$ (269,226)
Fair value of plan assets	—	—
Funded status at end of year	\$ (269,226)	\$ (269,226)

Liabilities recognized in the statements of financial position:

	Pension Benefits	
	2020	2019
Accrued postretirement health care benefits	\$ (269,226)	\$ (269,226)

The estimated net gain and prior service credit obligation for the defined-benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$0:

	2020	2019
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.25%	3.25%
Weighted-average assumptions used to determine benefit costs		
Discount rate	3.50%	3.50%

For measurement purposes, an 7.0 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018, the date of the most recent valuation. The rate was assumed to decrease gradually to 5 percent by the year 2024 and remain at that level thereafter.

The total amount of benefits expected to be paid from the plan by the University and the participants during each of the next five years and thereafter is as follows:

2021	\$ 28,000
2022	27,000
2023	26,000
2024	25,000
2025	24,000
2026 – 2028	53,000

Heidelberg University

Notes to Financial Statements

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Note 14: Significant Estimates, Concentrations and Commitments

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Construction Commitments

The University has commitments with certain companies for the construction of buildings and grounds. Commitments are as follows:

	2020	2019
France Hall Renovation	\$ 5,280,000	\$ 8,600,000
Miller Hall Renovation	7,670,000	7,866,000
Townhomes Project	1,322,000	4,245,000
	\$ 14,272,000	\$ 20,711,000

Contributions

In 2020 and 2019, approximately 19 percent and 46 percent, respectively, of contribution revenue was from one donor.

Investments

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and those such changes could materially affect the investment amounts reported in the statements of financial position.

Litigation

The University is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

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Note 15: Disclosures About Fair Value of Assets and Liabilities

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

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

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Notes to Financial Statements
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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020 and 2019:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2020				
Investments				
Money market funds	\$ 12,127,260	\$ 12,127,260	\$ —	\$ —
U.S. Government and agency securities	10,052,810	—	10,052,810	—
Corporate bonds	3,718,163	—	3,718,163	—
Common stocks and mutual funds				
Consumer				
discretionary	3,772,108	3,772,108	—	—
Consumer staples	2,445,793	2,445,793	—	—
Energy	972,994	972,994	—	—
Financials	3,855,165	3,855,165	—	—
Health care	4,773,406	4,773,406	—	—
Industrials	3,073,209	3,073,209	—	—
Information				
technology	7,620,962	7,620,962	—	—
Materials	1,159,595	1,159,595	—	—
Real estate	1,101,910	1,101,910	—	—
Telecom services	3,226,885	3,226,885	—	—
Other	1,174,468	1,174,468	—	—
Private equity funds measured at net asset value (A)	50,699	—	—	—
Real estate and land contracts	—	—	—	—
Beneficial interest in perpetual trusts	4,640,614	—	—	4,640,614

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Investments				
Money market funds	\$ 9,497,849	\$ 9,497,849	\$ —	\$ —
U.S. Government and agency securities	9,621,563	—	9,621,563	—
Corporate bonds	3,558,661	—	3,558,661	—
Common stocks and mutual funds				
Consumer discretionary	4,013,543	4,013,543	—	—
Consumer staples	2,202,841	2,202,841	—	—
Energy	2,174,603	2,174,603	—	—
Financials	5,164,231	5,164,231	—	—
Health care	4,522,920	4,522,920	—	—
Industrials	4,038,788	4,038,788	—	—
Information technology	6,461,166	6,461,166	—	—
Materials	1,438,513	1,438,513	—	—
Real estate	1,477,460	1,477,460	—	—
Telecom services	2,873,023	2,873,023	—	—
Other	1,081,834	1,081,834	—	—
Private equity funds measured at net asset value (A)	64,672	—	—	—
Real estate and land contracts	1,401,408	—	1,401,408	—
Beneficial interest in perpetual trusts	4,618,273	—	—	4,618,273

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. The University has no liabilities measured at fair value on a recurring basis. Additionally, the University has no assets or liabilities measured at fair value on a nonrecurring basis.

Heidelberg University

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Investments

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

Level 3 Determination

Fair value determinations for Level 3 measurements of securities are the responsibility of the Controller's Office. The Controller's Office contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Controller's Office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreements. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Perpetual Trusts
Balance, July 1, 2018	4,550,028
Total realized and unrealized gains included in change in net assets	68,245
Distributions	—
Balance, July 1, 2019	4,618,273
Total realized and unrealized gains included in change in net assets	22,341
Distributions	—
Balance, June 30, 2020	<u>\$ 4,640,614</u>
Total gains for the period included in change in net assets attributable to the change in unrealized gains related to assets still held at the reporting date	
June 30, 2020	<u>\$ 22,341</u>
June 30, 2019	<u>\$ 68,245</u>

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Note 16: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Financial assets, at year-end	\$ 74,244,390	\$ 96,633,128
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(3,831,733)	(3,918,752)
Subject to appropriation and satisfaction of donor restrictions	(53,855,048)	(54,435,577)
Contributions receivable	(1,213,885)	(1,660,293)
Bond proceeds restricted for construction	—	(22,221,529)
	<u>\$ 15,343,724</u>	<u>\$ 14,396,977</u>

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

For purpose of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

The Board of Trustees has authorized a distribution from the endowment to support operations for fiscal year 2020 of approximately \$2,200,000. This amount is netted against restrictions subject to appropriation and satisfaction of donor restrictions in the table above.

Note 17: Endowment

The University's endowment consists of approximately 380 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

The composition of net assets by type of endowment fund at June 30, 2020 and 2019, was:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ <u> —</u>	\$ <u> 51,414,434</u>	\$ <u> 51,414,343</u>
	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ <u> —</u>	\$ <u> 51,987,303</u>	\$ <u> 51,987,303</u>

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Notes to Financial Statements

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Changes in endowment net assets for the years ended June 30, 2020 and 2019, were:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ —	\$ 51,987,303	\$ 51,987,303
Investment return			
Investment income	—	933,803	933,803
Net appreciation	—	10,469	10,469
Total investment return	—	944,272	944,272
Contributions	—	1,046,944	1,046,944
Other changes	—	(252,971)	(252,971)
Appropriation of endowment assets for expenditure	—	(2,311,114)	(2,311,114)
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 51,414,434</u>	<u>\$ 51,414,434</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ —	\$ 52,245,539	\$ 52,245,539
Investment return			
Investment income	—	1,023,838	1,023,838
Net appreciation	—	122,136	122,136
Total investment return	—	1,145,975	1,145,975
Contributions	—	922,877	922,877
Other changes	—	(113,656)	(113,656)
Appropriation of endowment assets for expenditure	—	(2,213,431)	(2,213,431)
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 51,987,303</u>	<u>\$ 51,987,303</u>

Investment and Spending Policies

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity. Under the University's policies, endowment assets are invested in a manner that is intended to produce results of 6 percent in excess of inflation while having aversion to unnecessary risk. The University expects its endowment funds to provide an average real rate of return of approximately 9 percent annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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The University has a policy (the spending policy) of appropriating for expenditure each year 5.0 percent of its endowment fund's average fair value calculated on a quarterly basis using the most recent 12-quarter rolling average. In establishing this policy, the University considered the long-term expected return on its endowment. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Underwater Endowments

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Ohio UPMIFA. Such endowments are often referred to as "underwater" endowments. The University is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value.

In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. At June 30, 2020, funds with original gift values of \$25,916,695, fair values of \$23,281,110, and deficiencies of \$2,635,585 were reported in net assets with donor restrictions. At June 30, 2019, funds with original gift values of \$17,931,205, fair values of \$15,920,614, and deficiencies of \$2,010,591 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body at the time of such appropriation. Any future gains that restore the fair value of the assets of the endowment fund to the required level shall be classified as increases in net assets with donor restrictions.

The University has a policy that permits spending from underwater endowment funds depending on the degree to which the funds is underwater, unless otherwise precluded by donor stipulations or laws and regulations. The governing Board appropriated for expenditure 5 percent for the 12 quarter rolling average.

Note 18: Revenue From Contracts With Students and Customers

Tuition, Residential Services and Meal Plan Services Revenue

Revenue from contracts with students for tuition, residential services and meal plan services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food and other services. These amounts are due from students, third-party payers and others and are net of scholarships and institutional aid of \$19,809,754 and \$18,859,067 for the years ended June 30, 2020 and 2019, respectively.

Revenue is recognized as performance obligations are satisfied, which is primarily ratably over the academic term with the exception of certain meal plans that are recognized at a point in time. Generally, the University bills students prior to the beginning of the semester and student accounts receivable are due in full before classes begin unless the student has entered into a monthly payment plan.

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If a student withdraws during the academic term, the student is refunded based on a defined refund schedule and what week the student is in the academic term. No refunds are awarded after the end of the ninth week of the academic term. At year-end, there is no refund liability as the academic term is substantially complete.

Tuition, residential services and meal plan services revenue are considered to be separate contracts with separate performance obligations.

Transaction Price and Recognition

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

From time to time the University will incur student credit balances and student deposits which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2020 and 2019, the University has a liability for refunds or deposits from students recorded of \$561,773 and \$843,567, respectively.

For the year ended June 30, 2020, the University recognized revenue within the scope of ASC 606 of \$19,173,839, from goods and services that transfer to the students over time and \$3,861,793 from goods and services that transfer to students and customers at a point in time.

The University has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, students, governmental programs and others) that have different reimbursement and payment methodologies
- Demographic and enrollment trends
- Institutional aid and federal and state aid programs

Contract Balances

The following table provides information about the University's contract assets and contract liabilities:

	2020
Contract Assets	
Accounts receivable, beginning of the year	\$ 1,676,492
Accounts receivable, end of the year	1,378,792
Contract Liabilities	
Deferred revenue, beginning of the year	4,818,470
Deferred revenue, end of the year	4,824,669

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Note 19: Coronavirus Aid, Relief, and Economic Security Act and Other Coronavirus Events

As a result of the spread of the SARS-CoV-2 virus and the incident of COVID-19, the state of Ohio issued shelter-in-place orders and other measures around public gathers and business operations to slow the spread of the virus. Furthermore, colleges and universities across the country took unprecedented action to protect the health and safety of students, including our campus. Beginning on March 22, 2020, we announced that campus operations were being suspended and all students were transitioned to a distance education framework through the end of the academic term. In addition, all summer classes will be conducted through distance education and all summer conferences and events have been cancelled or postponed. Given the uncertainty in the epidemiological and economic outlook, there may be short and long-term implications for our instruction, student experience and operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES). On April 14, 2020, the University received a loan in the amount of \$2,574,135 pursuant to the Paycheck Protection Program. The University anticipates using all of the proceeds to make eligible payments and, therefore, expects substantially all of the loan will be forgiven. The University has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting FTE and salary reduction requirements and incurring eligible expenditures. The loan is recorded as a refundable advance within the statements of financial position and is included in changes in refundable advances within operating activities on the statements of cash flows. The CARES Act also created a Higher Education Emergency Relief Fund specifically for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and also direct aid to institutions to cover costs associated with the significant changes to the delivery of instruction due to COVID-19. The University was awarded \$1,190,956 of which \$595,478 was restricted for students as emergency grants and \$595,478 was restricted as the institutional portion to cover costs associated with the disruption and the delivery of instruction. At June 30, 2020, \$282,050 was expended for students and \$282,050 was expended for institutional purposes.

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Note 20: U.S. Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education for the year ended June 30, 2020:

	<u>2020</u>
Property, plant and equipment, net of accumulated depreciation – pre-implementation	\$ 61,932,658
Property, plant and equipment, net of accumulated depreciation – post-implementation with outstanding debt for original purchase	1,097,569
Property, plant and equipment, net of accumulated depreciation – post-implementation without outstanding debt for original purchase	—
Construction in progress	8,583,643

Note 21: Subsequent Events

Subsequent events have been evaluated through November 18, 2020, which is the date the financial statements were available to be issued.