



BALDWIN WALLACE UNIVERSITY

Consolidated Financial Statements and Supplementary Information

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

BALDWIN WALLACE UNIVERSITY

Table of Contents

	Page
Summary of Operations (unaudited)	1
Report of the Administration (unaudited)	4
Independent Auditors' Report	5
Consolidated Statements of Financial Position	7
Consolidated Statements of Activities	9
Consolidated Statements of Functional Expenses	10
Consolidated Statements of Cash Flows	11
Notes to Consolidated Financial Statements	12
Supplementary Information – Schedule I (certain unaudited information)	30

BALDWIN WALLACE UNIVERSITY

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Baldwin Wallace University
Summary of Operations
For the Year Ended June 30, 2020
(unaudited)

Founded in 1845 as Baldwin Institute, Baldwin Wallace University (BW) was one of the first colleges and universities in Ohio to admit students without regard to race or gender. Today, BW continues as an independent, coeducational institution, accredited by the Higher Learning Commission. The academic program is rooted in the liberal arts but includes a wide range of majors, minors, and other programs containing abundant opportunities for career exploration and application.

Undergraduate degrees offered are the Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Music, Bachelor of Music Education, and Accelerated Bachelor of Science in Nursing.

BW offers graduate programs leading to the degrees of Master of Accountancy, Master of Arts in Education, Master of Arts in Management, Master of Business Administration, Master of Medical Science (Physician Assistant), Master of Public Health, and Master of Science (Speech Language Pathology, Finance), BW also has certificate programs in a variety of specialties.

Baldwin Wallace University does not discriminate because of race, creed, age, disabilities, national origin, gender, gender orientation, or sexual orientation in admissions, programs, or administration.

The campus is in Berea, Ohio, a suburb southwest of Cleveland.

COVID-19

The COVID-19 pandemic made this a year like no other at BW, as it did everywhere. During the spring semester mid-term break, the administration made the decision to halt in-person instruction. The students did not return to campus after break. Remote instruction started one week later. BW provided meal plan, room, and parking fee credits or refunds equal to half of the semester charges. Any remaining campus card balances rolled forward to the coming year or were refunded. The University continued to pay full-time auxiliary enterprise employees through the end of April. Mainly as a result of these actions, auxiliary enterprise revenue for the year was down approximately \$4.1 million from the previous year, while related expenses were down \$1.1 million. These changes were factors in the University's first current operating deficit in many years.

An unrestricted federal government Coronavirus Aid, Relief, and Economic Security (CARES) Act payment of \$1,685,264 partially offset the revenue credits and refunds. The University also received an identical payment restricted for student financial aid and is using this for special student needs arising from the pandemic.

The officers recognized that COVID-19 would have a lasting impact on the University. In April they formed working groups to examine the major areas of University operations and to develop strategies to impact the coming fall semester and beyond.

Enrollment and tuition

The 2019-2020 academic year opened with a total fall semester enrollment of 3,534. This total included 2,820 full-time undergraduate students, 174 part-time undergraduates, and 540 graduate students. The full-time-equivalent enrollment was 3,233, down 150 from the previous fall.

Billed tuition and fee revenue totaled \$103,820,688. Offsetting this were financial aid grants awarded by Baldwin Wallace of \$48,052,713. Students also received direct federal and state grants amounting to \$6,865,390. BW administers these government grants. The combined grants were 53 percent of tuition and fees revenue. Additional forms of financial aid included Federal Direct Student Loans administered by the University and wages paid to students for campus jobs.

Tuition revenue net of University aid grants was \$55,767,975, down about \$3.8 million from the previous year. Program and support expenses were up slightly.

Contributions

Contributions during the year totaled approximately \$19.5 million. Contributions for investment in endowment and plant were \$8.9 million. Contributions available for current operations were \$4.9 million. New pledges of future support less pledge payments were \$5.7 million. The University took a charge of \$4 million representing capital fundraising costs deferred in the previous three years.

Endowment and plant

The market value of endowment and similar assets at June 30, 2020 was \$177,999,174. This was down approximately \$1.5 million from June 30, 2019, as distributions for current operating use of \$7.6 million exceeded contributions and earnings. The market value amount includes donor restricted endowments (\$143.9 million), funds functioning as endowment, gift annuities, remainder trusts, and beneficial interests in perpetual trusts.

Plant spending totaled about \$16.8 million. This included new construction, renovations, and improvements to existing buildings, and purchases of equipment and furnishings.

In April 2019 BW began construction of a new building to house its mathematics, computer science, engineering, and physics programs. Planning and design had been underway for several years. The two-story building will contain approximately 55,000 square feet. Its location is North Campus adjacent to the Thomas Center. This site required the demolition of Ward Hall and several rental houses. The construction timeline calls for the new building to open in January of 2021. Donor restricted gifts and pledges on hand at June 30, 2020 will cover most of the cost of this construction. The University has named this building the Austin E. Knowlton Center in recognition of a major contribution from the Austin E. Knowlton Foundation.

Voluntary employee separation plan

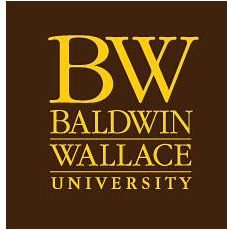
In January 2020 the University offered voluntary separation incentives to both faculty and staff employees who met eligibility requirements pertaining to length and type of service. The purpose was to create budget flexibility in advancing strategic goals. The plan offered a lump sum payment of 100% of the person's base salary, less applicable deductions and taxes, plus \$5,000 for health care expenses. Forty-four persons accepted and retired as of June 30, 2020. The administration planned to replace just 14 of these positions. The cost of the incentives was \$3,304,169.

Net assets

Net assets as of June 30, 2020 and 2019 were \$314,369,627 and \$321,452,057. Following is a summary of the changes in net assets for the two years:

	<u>2020</u>	<u>2019</u>
Current operating activities:		
Tuition and other revenue without donor restrictions	\$ 75,353,955	83,552,088
Donor restrictions released	15,019,451	15,482,446
Expenses	<u>(97,917,943)</u>	<u>(98,489,846)</u>
Change from current operating activities	<u>(7,544,537)</u>	<u>544,688</u>
Plant, endowment, and other activities:		
Contributions and other donor restricted revenue, less restrictions released for current operations	9,437,672	2,783,427
Investment gains (losses) after distributions for use of \$7,605,545 and \$7,223,549, respectively	(1,990,355)	3,372,498
Depreciation of plant acquired with donor restricted funds	<u>(3,681,041)</u>	<u>(3,764,761)</u>
Change from plant, endowment, and other activities	<u>3,766,276</u>	<u>2,391,164</u>
Change in net assets before charges	(3,778,261)	2,935,852
Voluntary employee separation incentives	<u>(3,304,169)</u>	<u>—</u>
Change in net assets	<u>\$ (7,082,430)</u>	<u>2,935,852</u>

See the Supplementary Information section of this report for multi-year comparisons of enrollment, fee, and financial data.



Report of the Administration

This report covers the consolidated financial statements and related notes of Baldwin Wallace University, along with supplementary information. The Administration of Baldwin Wallace is responsible for the preparation and content of these statements. They have prepared the statements from the financial records of the University, in conformity with accounting principles generally accepted in the United States of America.

Statements issued by the Financial Accounting Standards Board govern the form and content of private college and university financial statements. The three basic financial statements are the consolidated statements of financial position (assets, liabilities and net assets), activities (revenue and expense), and cash flows. Baldwin-Wallace provides additional analytical and nonfinancial data, including enrollment, admissions, and fees, as supplementary information.

The University's accounting system includes internal controls designed to provide reasonable assurance, at appropriate cost, of the reliability of its financial records and the proper safeguarding and use of its assets. These controls are based on established policies and procedures, and they are implemented by trained, skilled personnel, with an appropriate segregation of duties.

The independent auditing firm of KPMG LLP has audited the consolidated financial statements in accordance with auditing principles generally accepted in the United States of America. Their opinion appears in this report.

The Board of Trustees exercises its responsibility for the consolidated financial statements through the Audit Review Committee. The committee meets at least annually with members of the Administration and representatives of the independent auditing firm to discuss accounting, reporting and internal control matters.

A handwritten signature in blue ink that reads "William M. Reniff".

William M. Reniff
Vice President for Finance and Administration



KPMG LLP
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Cleveland, OH 44114-1796

Independent Auditors' Report

The Board of Trustees
Baldwin Wallace University:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Baldwin Wallace University (the University), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baldwin Wallace University as of June 30, 2020 and 2019, and the changes in their net assets, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedule I for the years ended June 30, 2020 and 2019 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information included in Schedule I related to the University's 2020 and 2019 consolidated financial statements, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the University's 2020 and 2019 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedule I related to the University's 2020 and 2019 consolidated financial statements, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the University's 2020 and 2019 consolidated financial statements as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statements of financial position of the University as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended (none of which is presented herein), and we expressed unmodified opinions on those financial statements. The supplementary information included in Schedule I for the years ended June 30, 2018 and 2017 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the respective consolidated financial statements. The supplementary information included in Schedule I related to the University's 2018 and 2017 consolidated financial statements, except for that portion marked "unaudited," on which we express no opinion, has been subjected to auditing procedures applied in the audits of the University's 2018 and 2017 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those consolidated financial statements or to those consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedule I related to the University's 2018 and 2017 consolidated financial statements, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the University's 2018 and 2017 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Cleveland, Ohio
October 30, 2020

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2020 and 2019

Assets	2020	2019
Operating assets:		
Cash and cash equivalents	\$ 1,682,103	6,271,960
Short term investments	7,215,202	8,546,275
Student accounts receivable, less allowances for doubtful receivables of \$98,000 and \$100,000, respectively	3,430,393	4,328,099
Receivables from the federal and state governments	1,084,960	1,421,001
Other receivables, less allowances for doubtful receivables of \$34,000 and \$34,000, respectively	639,346	471,640
Inventory	1,540,965	1,826,443
Prepaid expenses	870,479	5,187,843
Pledges receivable at present value, less allowances for doubtful pledges of \$295,000 and \$153,000, respectively	9,658,626	3,981,502
Student loan notes receivable, less allowances for doubtful loans of \$374,000 and \$502,000, respectively	<u>3,008,669</u>	<u>3,475,733</u>
Total operating assets	<u>29,130,743</u>	<u>35,510,496</u>
Endowment and similar assets:		
Cash equivalents	2,701,354	3,613,072
Investments at fair value	159,394,343	160,196,700
Beneficial interest in perpetual trusts	<u>15,903,477</u>	<u>15,723,547</u>
Total endowment and similar assets	<u>177,999,174</u>	<u>179,533,319</u>
Property and Equipment:		
Grounds	18,014,038	17,553,647
Educational and general buildings	161,546,585	158,253,527
Residence halls	66,887,373	65,838,362
Residences	2,985,545	4,223,209
Furniture and equipment	29,713,102	29,528,825
Construction in progress	<u>14,293,605</u>	<u>1,940,228</u>
	293,440,248	277,337,798
Accumulated depreciation	<u>(138,038,864)</u>	<u>(131,445,505)</u>
Net property and equipment	<u>155,401,384</u>	<u>145,892,293</u>
Total assets	\$ <u><u>362,531,301</u></u>	<u><u>360,936,108</u></u>

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2020 and 2019

Liabilities and Net Assets	2020	2019
Liabilities:		
Accounts payable	\$ 3,226,574	1,282,342
Accrued expenses	3,165,574	3,227,006
Deferred revenue and student deposits	7,970,164	2,493,038
Other liabilities	5,017,894	1,617,773
Annuity obligations	4,128,193	4,289,933
U.S. Government advances for Perkins Loans to students	1,814,088	2,125,692
Long-term debt	<u>22,839,187</u>	<u>24,448,267</u>
Total liabilities	<u>48,161,674</u>	<u>39,484,051</u>
Net assets:		
Without donor restrictions:		
Functioning as endowment	4,646,132	4,859,670
Invested in plant	<u>95,538,673</u>	<u>113,412,648</u>
Total without donor restrictions	<u>100,184,805</u>	<u>118,272,318</u>
With donor restrictions:		
Expendable for-		
Program	4,678,601	4,704,961
Student financial aid grants	4,422,561	4,224,993
Plant	10,251,119	14,793,594
Invested in plant under construction	13,220,827	1,940,228
Future support	9,658,626	3,981,502
Student loans	1,154,824	1,245,000
Annuities and trusts	22,984,437	22,842,952
Functioning as endowment	3,910,582	4,976,723
Endowment	<u>143,903,245</u>	<u>144,469,786</u>
Total with donor restrictions	<u>214,184,822</u>	<u>203,179,739</u>
Total net assets	<u>314,369,627</u>	<u>321,452,057</u>
Total liabilities and net assets	<u>\$ 362,531,301</u>	<u>360,936,108</u>

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Activities
Years ended June 30, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions:		
Revenue:		
Tuition and fees	\$ 55,767,975	59,563,505
Contributions	1,422,575	1,522,414
Investment income and gains distribution	1,548,280	1,477,754
Auxiliary enterprises	16,088,633	20,232,513
Other	526,492	755,902
Total revenue	75,353,955	83,552,088
Net assets released from restrictions:		
Program	7,229,730	8,654,208
Student financial aid grants	7,083,872	6,567,029
Property and equipment	1,234,957	2,258,818
Total net assets released from restrictions	15,548,559	17,480,055
Total revenue and restrictions released	90,902,514	101,032,143
Expenses	(105,602,320)	(102,254,607)
Investment gains (losses) after distribution	(83,538)	11,266
Voluntary employee separation incentives	(3,304,169)	—
Change in net assets without donor restrictions	(18,087,513)	(1,211,198)
Changes in net assets with donor restrictions:		
Revenue:		
Contributions	18,071,015	9,562,747
Investment income and gains distribution	6,057,265	5,745,795
Government grants	1,574,928	1,775,253
CARES Act	2,291,500	—
Other	465,751	1,182,078
Total revenue	28,460,459	18,265,873
Net assets released from restrictions	(15,548,559)	(17,480,055)
Investment gains (losses) after distribution	(1,906,817)	3,361,232
Change in net assets with donor restrictions	11,005,083	4,147,050
Change in net assets	(7,082,430)	2,935,852
Net assets at beginning of year	321,452,057	318,516,205
Net assets at end of year	\$ 314,369,627	321,452,057

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Functional Expenses

Years ended June 30, 2020 and 2019

	<u>Compensation</u>	<u>Plant operation and maintenance</u>	<u>Depreciation</u>	<u>Other</u>	<u>Total</u>
Year ended June 30, 2020:					
Instruction	\$ 33,340,494	5,255,670	4,566,059	2,044,746	45,206,969
Academic support	4,684,373	225,243	195,688	2,279,758	7,385,062
Library	679,972	450,486	391,377	395,465	1,917,300
Student services	5,934,400	600,648	521,836	1,918,738	8,975,622
Student activities	3,810,321	1,541,004	1,312,544	1,523,005	8,186,874
Institutional support	9,201,556	525,567	456,606	9,997,826	20,181,555
Auxiliary enterprises	4,026,086	2,491,283	2,595,720	4,635,849	13,748,938
Totals	\$ <u>61,677,202</u>	<u>11,089,901</u>	<u>10,039,830</u>	<u>22,795,387</u>	<u>105,602,320</u>
Salaries and wages	46,437,080	2,688,762	—	—	49,125,842
Benefits	15,240,122	989,791	—	—	16,229,913
Year ended June 30, 2019:					
Instruction	\$ 33,758,756	4,870,244	4,641,083	3,092,817	46,362,900
Academic support	4,854,041	208,725	198,904	2,004,930	7,266,600
Library	676,569	417,449	397,807	426,779	1,918,604
Student services	6,776,170	556,599	530,409	2,235,950	10,099,128
Student activities	3,855,712	945,313	1,389,523	2,317,151	8,507,699
Institutional support	7,297,010	487,024	464,108	4,953,337	13,201,479
Auxiliary enterprises	4,011,937	1,863,659	2,573,246	6,449,355	14,898,197
Totals	\$ <u>61,230,195</u>	<u>9,349,013</u>	<u>10,195,080</u>	<u>21,480,319</u>	<u>102,254,607</u>
Salaries and wages	45,299,741	2,700,521	—	—	48,000,262
Benefits	15,930,454	954,017	—	—	16,884,471

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (7,082,430)	2,935,852
Adjustments to reconcile the change in net assets to net cash used by operating activities:		
Depreciation	10,039,831	10,195,080
Net gains on endowment and similar investments	(4,040,926)	(7,372,901)
Change in student accounts and other receivables	1,066,041	(561,204)
Change in inventory and prepaid expenses	4,602,842	(2,622,576)
Change in accounts payable and accrued expenses	(868,048)	(752,428)
Change in deferred revenue, annuity obligations, government advances, and other liabilities	8,403,903	382,350
Contributions of equipment	—	(272,019)
Contributions restricted for long-term investment	(14,617,325)	(5,473,084)
Other income restricted for long-term investment	<u>(575,061)</u>	<u>(632,173)</u>
Net cash used by operating activities	<u>(3,071,173)</u>	<u>(4,173,103)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(16,798,073)	(13,764,365)
Purchases of endowment and similar investments	(102,934,076)	(44,697,942)
Sales of endowment and similar investments	108,509,147	47,300,426
Purchases of short term investments	(3,158,233)	(169,626)
Sales of short term investments	4,489,306	815
Change in student loans	<u>467,064</u>	<u>447,344</u>
Net cash used by investing activities	<u>(9,424,865)</u>	<u>(10,883,348)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	8,940,201	5,641,199
Other income restricted for long-term investment	575,061	632,173
Issuance of long term debt	—	3,550,000
Principal payments on debt	<u>(1,609,080)</u>	<u>(1,476,733)</u>
Net cash provided by financing activities	<u>7,906,182</u>	<u>8,346,639</u>
Net change in cash and cash equivalents	(4,589,856)	(6,709,812)
Cash and cash equivalents at beginning of period	<u>6,271,959</u>	<u>12,981,771</u>
Cash and cash equivalents at end of period	\$ <u><u>1,682,103</u></u>	\$ <u><u>6,271,959</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 952,840	912,655
Construction in progress in accounts payable	2,750,848	557,367

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(1) Nature of Organization

Baldwin Wallace University (the University), founded in 1845, is an independent, coeducational university in the liberal arts tradition, accredited by the Higher Learning Commission. Undergraduate degrees granted are the Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Music, Bachelor of Music Education, and Accelerated Bachelor of Science in Nursing. Graduate degrees granted are Master of Accountancy, Master of Arts in Education, Master of Arts in Management, Master of Business Administration, Master of Medical Science, Master of Public Health, and Master of Science. The University also has certificate programs in a variety of specialties.

(2) Summary of Significant Accounting Policies

(a) Method of Accounting

The University has prepared the accompanying consolidated financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

The University prepares its consolidated financial statements to focus on the organization as a whole and to present balances and transactions classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as either without donor restrictions or with donor restrictions.

Revenue is reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by donor stipulation. The University has primarily reported gains or losses on investments as net assets with donor restrictions as a result of such donor stipulations or law. Expirations of donor restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases to net assets without donor restrictions.

Contributions, including private gifts, grants and pledges (unconditional promises to give), are recognized as revenue in the period received. Contributions of long-lived assets, or of cash or other assets to be used to acquire them, with donor stipulations concerning the use of such long-lived assets, are reported as revenue of net assets with donor restrictions. When the donor restriction expires, that is, when a stipulated time restriction or purpose restriction is met, net assets with donor restrictions are transferred to net assets without donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized. Allowance is made for doubtful collection of contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(b) Investments

Investments are reported at fair value. With respect to investment funds such as the University's investments managed by The Common Fund for Nonprofit Organizations (Commonfund), the estimated fair values are provided by external investment managers. Commonfund is an institutional investment manager serving higher education, health care, foundations, and other nonprofit institutions. These estimated fair values are reviewed and evaluated by the University management. Due to the inherent uncertainties of these estimates, these estimated fair values may differ from the values that would have been used had a ready market existed for such investments. Alternative investments are valued at fair value for marketable securities and net asset value (NAV) of the University's ownership interest in the partners' capital as a practical expedient for non-marketable securities.

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of the specific identification of securities sold. Investment custodial fees are classified as a reduction in investment income for financial reporting purposes.

(c) Inventory

Inventories, which consist of bookstore and other supplies, are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

(d) Annuities and Perpetual Trusts

The University's split-interest agreements with donors consist of irrevocable charitable remainder trusts, charitable gift annuities, and life income contracts for which the University is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held in trust for which the University serves as trustee are included in investments on the consolidated statements of financial position. The fair value of these investments was \$11,468,065 at June 30, 2020 and \$11,660,622 at June 30, 2019. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included as annuity obligations on the consolidated statements of financial position. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future amounts payable. Significant assumptions used in the calculation of the liability include:

- Assumed mortality rates based upon the 2012 Individual Annuity Reserving Mortality Table
- Assumed valuation interest rates range between 2.00% and 2.75%
- Assumed annuity payments made annually at the beginning of the year.

Assets held in trust for which the University does not serve as trustee (i.e., perpetual trusts) are also included as assets on the consolidated statements of financial position. The investment balances of \$15,903,477 and \$15,723,547 at June 30, 2020 and 2019, respectively, are recorded at fair value. Changes in the value of the University's beneficial interest in these perpetual trusts are reflected within the consolidated statements of activities as a component of donor restricted endowment and similar investment income.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(e) Government Advances for Student Loans

The University receives government advances to fund student loans. These advances are recorded as a liability within the consolidated statements of financial position. Interest earned through loan repayments is reinvested into the program to fund additional loans.

(f) Student Loans Receivable

Student loans receivable are reported net of reserves for doubtful loans of \$374,000 as of June 30, 2020 and \$502,000 as of June 30, 2019. The reserve is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers still in school or in the grace period following graduation), that may not be collected.

(g) Deferred Revenue and Student Deposits

Revenue and expenses related to academic terms conducted over two fiscal years, such as the summer session, are recognized over the two fiscal years. Amounts prepaid for future academic terms are included in deferred revenue and student deposits within the consolidated statements of financial position.

(h) Property and Equipment

Property and equipment are stated at historical cost. Amounts capitalized are depreciated over the estimated useful life of each class of depreciable asset. Depreciation is computed on the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Building additions and renovations	25 years
Computers, telephones, copiers, and vehicles	5 years
Other equipment and furniture	10 years
Pianos and other musical instruments	35 years

(i) Impairment of Long-Lived Assets

The University evaluates the recoverability of long-lived assets and the related estimated remaining lives at each fiscal year end. The University records an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the useful life should be modified. No such impairment or change in estimated useful life was recorded in the fiscal years ended June 30, 2020 and 2019.

(j) Asset Retirement Obligations

The University has recorded a liability for conditional asset retirement obligations in other liabilities on the consolidated statements of financial position of approximately \$947,000 and \$894,000 at June 30, 2020 and 2019, respectively. Related discount amortization and depreciation in the fiscal years ended June 30, 2020 and 2019 were approximately \$57,000 and \$54,000, respectively.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(k) Prepaid Expenses

Prepaid expenses consist of prepaid insurance, maintenance, and other costs associated with future periods.

(l) Income Taxes

The University has received a determination letter from the Internal Revenue Service indicating it is a tax-exempt organization as provided for in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes except for taxes pertaining to unrelated business income. No liability provision has been made for income taxes in the accompanying financial statements. Institutional expense includes minor amounts representing estimated and final payments of the unrelated business income tax.

The University uses a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Tax provisions are evaluated for recognition, derecognition, and measurement using consistent criteria about the uncertainty in income tax assets and liabilities. Based on the University's evaluation, no provision for uncertain tax positions is required as of June 30, 2020 and 2019.

(m) Cash and Cash Equivalents and Short-Term Investments

Cash equivalents consist of short-term highly liquid instruments purchased with an original maturity date of three months or less, except for cash equivalents of endowment and similar funds, which are treated as long term investments.

Short-term investments are reported at fair value and represent the University's operating cash and endowment and similar cash that has been invested in short-term investment funds, which have underlying investments that are not considered cash equivalents and are reported at fair value based on quoted market prices.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 disclosure of contingent assets and liabilities and the reported amounts of revenue, expenses, gains, and losses during the reporting period. Actual results could differ from those estimates.

(o) Auxiliary Enterprises

The University recognizes revenue and expenses related to residence and dining halls, bookstores, vending, and rental houses as auxiliary enterprises on the consolidated statements of activities.

(p) Student Financial Aid Grants

Tuition and fees are reported net of student financial aid grants. A student financial aid grant represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(q) Functional Classification of Expense

Expenses are presented by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. The University allocates a portion of property and equipment operation and maintenance and depreciation expenses to functional areas based on square foot occupancy. Student activities include athletics, the student union, and the recreation and health centers.

(r) Revenue from Contracts with Customers

Under Accounting Standards Codification (ASC) Topic 606, revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services (i.e., the transaction price).

Revenue from student education, residence, and dining services is reflected after reductions from institutional student aid and is recognized as the services are provided over the academic year, which generally aligns with the University's fiscal year. Aid in excess of a student's tuition and fees is reflected as a reduction of residence and dining charges. Disbursements made directly to students for living or other costs are reported as an expense. Payments for student services are generally received prior to the commencement of each academic term and are reported as student deposits to the extent services will be rendered in the following fiscal year.

The composition of revenue from academic programs was as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Undergraduate	\$ 95,508,081	95,121,371
Postgraduate and other	<u>8,312,607</u>	<u>11,513,466</u>
Total	103,820,688	106,634,837
Less:		
Financial aid provided to students and other	<u>(48,052,713)</u>	<u>(47,071,332)</u>
Net	<u>\$ 55,767,975</u>	<u>59,563,505</u>

Auxiliary enterprises revenue consists of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Residence and dining services	\$ 13,719,646	17,393,889
Retail operations (bookstore and other)	<u>2,368,987</u>	<u>2,838,624</u>
Total	<u>\$ 16,088,633</u>	<u>20,232,513</u>

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(s) Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update is intended to improve the net asset classification requirements and the information presented in the financial statement and notes about a not-for-profit entity's liquidity, financial performance and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; and recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The University adopted ASU 2016-14 for the year ended June 30, 2019 and applied the changes retrospectively. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements of the standard.

ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU did not materially change the timing or amount of revenue recognized by the University. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the consolidated statement of activities at the transaction price, i.e., reduced by any institutional student aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for institutional student aid.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of *Topic 958, Presentation of Financial Statements of Not for Profit Entities*, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and either a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU on a modified prospective basis did not have a material effect on its consolidated financial statements.

(t) Reclassifications

Certain amounts included in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

(u) COVID-19 Pandemic

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic and recommended actions for containment and mitigation. Subsequently, the University halted in-person instruction and resumed with remote instruction. The University provided

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

meal plan, room and parking fee credits and refunds in the amount of half of the semester charges in the amount of \$4,100,000.

An unrestricted federal government Coronavirus Aid, Relief, and Economic Security (CARES) Act payment of \$1,685,264 was obtained by the University. The University also received an identical payment restricted for student financial aid. Of the total \$3,370,528 obtained, a total of \$1,079,028 has outstanding conditions to be met before recognition.

The pandemic is still evolving and its total future effects remain unknown. Because of this, there has been instability in financial markets resulting in declines in markets. Due to the volatility in the economy and the financial markets, there is uncertainty regarding the long-term impact market conditions will have on the University's investment portfolio. The extent of the COVID-19 impact to our future operations will depend largely on future developments, along with any new information that may emerge regarding the severity of the pandemic and the actions taken by government authorities to mitigate the spread of the virus, amount other factors, all of which are highly uncertain and cannot be accurately predicted.

As a result of the disruption and uncertainty related to the COVID-19 pandemic, the University continues to assess the impacts to the future semesters.

(3) Long-Term Debt

The University had the following outstanding principal balances as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
State of Ohio Educational Facility Revenue Bonds	\$ 10,080,000	11,135,000
Bank loan	<u>12,759,187</u>	<u>13,313,267</u>
Long-term debt	<u>\$ 22,839,187</u>	<u>24,448,267</u>

(a) Bonds

On November 29, 2012, the University issued State of Ohio Higher Educational Facility Revenue Bonds with a par value of \$16,025,000. The University issued the bonds pursuant to a trust agreement between the Ohio Higher Educational Facility Commission and US Bank as trustee. The bonds are dated December 1, 2012, and they mature through 2042. Interest is payable semi-annually on each December 1 and June 1, at annual rates ranging from 0.6% to 4.0%.

The University used the proceeds from the bonds to pay the capital costs of certain major building renovations, and to repay State of Ohio Higher Educational Facility Revenue Bonds issued June 1, 2004.

Prepaid expenses at June 30, 2020 and 2019 include net issuance costs of \$84,569 and \$96,422, respectively. The University is amortizing the issuance costs over the life of the bonds using the effective interest method.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

The annual principal payments required on the bonds for 2020 and thereafter are as follows:

Fiscal year ending June 30:	
2021	\$ 1,150,000
2022	1,145,000
2023	1,195,000
2024	1,240,000
2025	1,280,000
Thereafter	<u>4,070,000</u>
	<u>\$ 10,080,000</u>

The bond agreement contains certain restrictive financial covenants, including provisions relating to certain fees and net revenue. The University was in compliance with its covenants as of June 30, 2020 and 2019.

(b) Bank loan

During the year ended June 30, 2018, the University substantially financed the construction of a new residence hall with a variable rate bank loan. The loan balance at June 30, 2018 was \$10,225,000. At completion in August 2018, the balance of the variable rate loan was \$13,775,000. The parties converted it to a fixed rate loan. The loan matures through 2043 and has an interest rate of 2.76%.

Fiscal year ending June 30:	
2021	\$ 554,080
2022	554,080
2023	554,080
2024	554,080
2025	554,080
Thereafter	<u>9,988,787</u>
	<u>\$ 12,759,187</u>

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(4) Investments

Endowment and similar assets include endowment funds, funds functioning as endowment, charitable gift annuities, charitable remainder trusts, and beneficial interests in outside trusts. At June 30, 2020 and 2019, these assets comprised the following:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 2,701,354	3,613,072
Commonfund:		
Equity funds	92,406,390	94,255,016
Fixed income funds	36,908,778	35,661,394
Alternative funds, marketable	11,607,291	12,087,514
Alternative funds, nonmarketable	6,726,245	6,258,095
Common stocks	446,535	448,773
Preferred stocks	671,450	478,300
Equity and balanced mutual funds	10,160,415	9,963,760
Fixed income	351,735	630,396
Beneficial interest in perpetual trusts	15,903,477	15,723,547
Other	115,504	413,452
	<u>\$ 177,999,174</u>	<u>179,533,319</u>

(5) Fair Value Measurements

The University has adopted the recognition and disclosure provisions prescribed in ASC 820, *Fair Value Measurement and Disclosures*, for financial assets. ASC 820 establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset.

ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets carried at fair value be disclosed according to the following three levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets. Level 1 yields the highest priority to unadjusted quoted prices in active markets for identical assets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Observable inputs other than quoted prices in Level 1. Inputs such as quoted prices for similar assets in active markets, quoted prices for identical or similar liabilities that are not active, or other inputs that are observable or can be corroborated by observable market data. Level 2 financial instruments include student accounts receivable, pledges receivable, student loan notes receivable and annuity obligations.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Level 3 – Unobservable inputs that are significant to the valuation of assets and are supported by little or no market data. This includes discounted cash flow methodologies, pricing models, and similar techniques that use significant unobservable inputs. Level 3 financial instruments include asset retirement obligations.

Level 1 investments include cash and cash equivalents, short term investments and Commonfund equity funds, fixed income funds and marketable alternative funds. These valuations are based on quoted prices from active stock exchanges for identical assets. Level 2 investments include fixed income securities, limited partnerships and other miscellaneous securities. The valuations of these securities are based on quoted prices from active stock exchanges for similar assets, quoted prices in inactive markets, or other observable market data such as matrix pricing and yield curves.

The University holds interests in various funds that are illiquid and do not allow for short-term redemption. Nonmarketable alternative funds are valued at their net asset value (NAV) as a practical expedient in determining fair value. These funds utilize a multi-manager approach, allocating assets to investment Sub-Advisors or investment funds managed by Sub-Advisors (Third Party Investment Funds). The strategies employed by the funds are primarily long-term or full market cycle approaches.

Level 3 investments include the University's portion of beneficial interests in several perpetual trusts held and administered by others in which the University is an income beneficiary. The primary input utilized in calculating the perpetual trusts' fair value is its net assets, which represents fair market valuation of certain equity, debt, and other instruments held by the perpetual trusts. In this manner, the perpetual trusts' valuation approximates fair market value. As the investments cannot be redeemed at the fair value, the University has classified these investments as Level 3 within the fair value hierarchy table.

The University has various alternative investments that have minimum capital commitments. As of June 30, 2020, the University has committed to make a total investment of \$18,350,000, of which \$8,909,148 has been invested, leaving \$9,440,852 of outstanding commitments. As of June 30, 2019, the University had committed to make a total investment of \$14,100,000, of which \$7,962,700 had been invested, leaving \$6,137,300 of outstanding commitments.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2020:

	Balance at June 30, 2020	Level 1	Level 2	Level 3
Investments by fair value level:				
Cash and cash equivalents	\$ 1,682,103	1,682,103	—	—
Short-term investments	7,215,202	7,215,202	—	—
Cash equivalents, endowment and similar	2,701,354	2,701,354	—	—
Commonfund:				
Equity funds	92,406,390	92,406,390	—	—
Fixed income funds	36,908,778	36,908,778	—	—
Alternative funds, marketable	11,607,291	11,607,291	—	—
Common stocks	446,535	446,535	—	—
Preferred stocks	671,450	671,450	—	—
Equity and balanced mutual funds	10,160,415	10,160,415	—	—
Fixed income	351,735	—	351,735	—
Beneficial interest in perpetual trusts	15,903,477	—	—	15,903,477
Other	115,504	—	115,504	—
Total assets by fair value level	180,170,234	<u>163,799,518</u>	<u>467,239</u>	<u>15,903,477</u>
Investments measured at the net asset value (NAV):				
Alternative funds, nonmarketable	<u>6,726,245</u>			
Total assets at fair value	\$ <u>186,896,479</u>			

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2019:

	Balance at June 30, 2019	Level 1	Level 2	Level 3
Investments by fair value level:				
Cash and cash equivalents	\$ 6,271,960	6,271,960	—	—
Short-term investments	8,546,275	8,546,275	—	—
Cash equivalents, endowment and similar	3,613,072	3,613,072	—	—
Commonfund:				
Equity funds	94,255,016	94,255,016	—	—
Fixed income funds	35,661,394	35,661,394	—	—
Alternative funds, marketable	12,087,514	12,087,514	—	—
Common stocks	448,773	448,773	—	—
Preferred stocks	478,300	478,300	—	—
Equity and balanced mutual funds	9,963,760	9,963,760	—	—
Fixed income	630,396	—	630,396	—
Beneficial interest in perpetual trusts	15,723,547	—	—	15,723,547
Other	413,452	—	413,452	—
Total assets by fair value level	188,093,459	<u>171,326,064</u>	<u>1,043,848</u>	<u>15,723,547</u>
Investments measured at the net asset value (NAV):				
Alternative funds, nonmarketable	<u>6,258,095</u>			
Total assets at fair value	<u>\$ 194,351,554</u>			

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

There were no transfers between Level 1 and 2, or 3 investments for the fiscal years ended June 30, 2020 and 2019. Perpetual trusts utilize significant unobservable inputs determined by the external trustees in estimating fair value. The following table presents activity for assets classified as Level 3:

	Fair value measurements using unobservable inputs (Level 3)
	Beneficial interest in perpetual trusts
Balance at June 30, 2018	\$ 15,214,425
Additions	—
Distributions	—
Income and realized gains	343,427
Payments	(725,953)
Unrealized gains	891,648
Balance at June 30, 2019	15,723,547
Additions	—
Distributions	—
Income and realized gains	366,045
Payments	(703,794)
Unrealized gains	517,679
Balance at June 30, 2020	\$ 15,903,477

(6) Endowment

The University's endowment consists of approximately 500 individual funds. The donors of these funds have restricted the principal for investment. Some of those donors have also restricted the use of the income as to purpose. The University has designated other funds, usually resulting from major bequests or gifts, as funds functioning as endowment. Both net assets with and without donor restrictions include funds functioning as endowment

The University's current spending policy is to withdraw each year an amount not exceeding 5% of the average of the June 30 market values for the preceding three years. These withdrawals include all ordinary investment income and the amount of accumulated gains required. The consolidated statements of activities for each of the net asset classes show these withdrawals as investment income and gains distribution.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or legislation requires the University to maintain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature would be reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2020 and 2019.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

The following table presents the changes in endowment net assets held by the University for the years ended June 30, 2020 and 2019:

	Donor restricted endowment	Functioning as Endowment		Total
		With donor restrictions	Without donor restrictions	
Balances June 30, 2018	\$ 139,885,924	7,503,340	4,890,860	152,280,124
Investment income and gains	9,167,093	300,709	229,187	9,696,989
Contributions	1,677,826	18,920	—	1,696,746
Transfers and other	1,301	(156,102)	—	(154,801)
Distributions and expenses	<u>(6,262,358)</u>	<u>(2,690,144)</u>	<u>(260,377)</u>	<u>(9,212,879)</u>
Balances June 30, 2019	144,469,786	4,976,723	4,859,670	154,306,179
Investment income and gains	5,089,050	171,417	156,077	5,416,544
Contributions	1,484,200	96,397	—	1,580,597
Transfers and other	18,447	277,643	—	296,090
Distributions and expenses	<u>(7,158,238)</u>	<u>(1,611,598)</u>	<u>(369,615)</u>	<u>(9,139,451)</u>
Balances June 30, 2020	\$ <u>143,903,245</u>	<u>3,910,582</u>	<u>4,646,132</u>	<u>152,459,959</u>

Members of the University Investment Committee develop investment policy, which is subject to approval by the Board of Trustees. They design the policy to be flexible and subject to revisions as the needs of the University may change. While the endowment is under the responsibility of the Board of Trustees, the Board has delegated authority for investment activities – including appointment, oversight, and evaluation of the Investment Manager – to the Investment Committee, whose members are appointed and serve at the pleasure of the Chairperson of the Board of Trustees. The members of the Investment Committee are all Trustees who volunteer their services on a pro bono basis.

The University's objective is to invest the endowment to seek an average total annual return that exceeds the spending rate plus inflation. The intent is to preserve over time the principal value of the assets as measured in inflation-adjusted terms. The relative objective is to seek competitive investment performance versus appropriate capital market measures. The comparative performance objective is to achieve a total rate of return that is above the median performance of a universe of similarly managed funds.

The assets are managed on a total return basis.

The University believes that its policies and procedures comply with the provisions of the Uniform Prudent Management of Institutional Funds Act.

(7) Retirement Plan

The University participates in the Teachers Insurance and Annuity Association retirement plan, which covers substantially all regular full-time employees. The defined contribution retirement plan is funded by University contributions ranging from 7% to 10% of the covered employees' regular salary and by required employee contributions ranging from 3% to 5% of regular salary. During the years ended June 30, 2020 and 2019, the University's contributions were approximately \$2,533,000 and \$2,530,000, respectively.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(8) Commitments and Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to their allowability in connection with the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. University management believes disallowances, if any, will not be material to the University's consolidated financial statements.

(9) Pledges Receivable

Pledges receivable totaling \$10,517,040 and \$4,369,811 at June 30, 2020 and 2019, respectively, represent gross unconditional promises to give. All gift pledges are restricted as to use for various purposes, primarily for property and equipment or endowment. These promises are reported at the present value of estimated future cash flows.

Pledges received were discounted at a rate of 3%. Discounts of \$563,414 and \$235,309 were recorded at June 30, 2020 and 2019, respectively.

Gift pledges are expected to be realized as follows:

	<u>2020</u>	<u>2019</u>
In one year or less	\$ 3,719,355	1,739,831
Between one and five years	6,784,551	2,599,182
More than five years	<u>13,134</u>	<u>30,798</u>
	10,517,040	4,369,811
Less:		
Allowance for uncollectible pledges	(295,000)	(153,000)
Discount on pledges	<u>(563,414)</u>	<u>(235,309)</u>
Net pledges receivable	<u>\$ 9,658,626</u>	<u>3,981,502</u>

Conditional promises to give totaled approximately \$35,300,000 as of June 30, 2020. This amount consists of commitments contained in wills and insurance policies. The amount at June 30, 2019, was \$33,100,000. Conditional promises to give are not recorded in the consolidated financial statements.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(10) Liquidity and Line Of Credit

Operating assets available within one year of the financial position date for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital constructions costs not financed with debt, were as follows:

Operating assets at June 30, 2020	\$	29,130,743
Less those unavailable for general expenditure within one year:		
Perkins student loan cash		(239,092)
Inventory		(1,540,965)
Prepaid expenses		(870,479)
Pledges due beyond one year		(6,797,685)
Student loans (revolving funds)		<u>(3,008,669)</u>
Operating assets available to meet cash needs for general expenditure within one year	\$	<u>16,673,853</u>

To manage liquidity, the University has a \$5,000,000 line of credit for operating funds that bears interest at LIBOR plus 250 basis points and a \$5,000,000 line of credit for operating funds that bears interest at LIBOR plus 150 basis points. No borrowings were outstanding as of June 30, 2020 and 2019.

(11) Historic Tax Credits and Limited Liability Companies

During the year ended June 30, 2010, the University created a historic district containing ten campus buildings, the Baldwin Wallace University South Campus Historic District. The Ohio Historic Preservation Office and the National Park Service approved this district, which was placed on the National Register of Historic Places on June 7, 2010. Within this district, the University can develop renovation projects that qualify for federal and state historic renovation tax credits. To obtain benefit from such credits, the University formed two for-profit limited liability companies with corporate investors, KCM I and KBS.

During the year ended June 30, 2017, the parties terminated KCM I.

KBS renovated and expanded three residence halls, Klein, 63 Beech, and Saylor. This work took place during the 2013 and 2014 fiscal years. The University opened Klein and 63 Beech for fall semester 2013 and Saylor for spring semester 2014. KBS received payment for the tax credits during the fiscal year ended June 30, 2014 and that amount was included as an increase to net assets with donor restrictions.

The parties terminated KBS effective March 9, 2020. Institutional support expenses for the year ended June 30, 2020 include KBS closing costs totaling \$189,015.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(12) Financial Responsibility Standards

The University participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of the Institution, which are not otherwise presented in the financial statements or other notes to the financial statements, as of and for the year ended June 30, 2020:

<u>Required input per standards</u>	<u>Ratio(s) Uses</u>	<u>Input Amount</u>	<u>Related Amount</u>
Property, plant and equipment, net	Primary reserve	141,107,779	
Construction in progress	Primary reserve	14,293,605	
Total property, plant and equipment, net			155,401,384
Lease right-of-use assets	Primary reserve	—	
Total lease right-of-use assets			—
Long-term debt – for long-term purposes	Primary reserve	22,839,187	
Line of credit for construction in progress	Primary reserve	—	
Total long-term debt			22,839,187
Liability related to lease right-of-use assets	Primary reserve & Equity	—	
Total liabilities related to lease right-of-use assets			—
<u>Required input per standards</u>	<u>Ratio(s) Uses</u>	<u>Input Amount</u>	<u>Related Amount</u>
Inputs directly from the statement of activities:			
Total operating revenue and other additions	Net income	\$ 90,902,514	
Less: investment return appropriated for spending	Net income	(1,548,280)	
Plus: gain on sale of fixed assets	Net income	—	
Total revenue and gains without donor restrictions	Net income	<u>\$ 89,354,234</u>	

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(13) Subsequent Events

The University evaluated subsequent events applicable to the year ended June 30, 2020 through October 30, 2020 the date the consolidated financial statements are available to be issued. There were no subsequent event matters identified for disclosure in the consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2020, 2019, 2018, and 2017

(Certain unaudited information)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Enrollment, fall semester (unaudited):				
Full-time undergraduate	2,820	2,923	2,979	3,058
Part-time undergraduate	174	223	229	257
Graduate	540	605	608	646
Total	<u>3,534</u>	<u>3,751</u>	<u>3,816</u>	<u>3,961</u>
Full-time-equivalent enrollment (unaudited)	3,233	3,383	3,471	3,588
Residence hall occupancy, fall (unaudited)	1,471	1,541	1,687	1,765
New day students, fall semester (unaudited):				
Applied	4,252	4,306	5,232	4,894
Accepted	3,005	3,099	2,989	2,882
Admitted	765	788	817	831
Fees charged per full-time student (unaudited):				
Tuition	\$ 33,530	32,586	31,668	30,776
Residence hall room (double)	5,678	5,518	5,280	5,052
Campus card (dining halls, bookstore)	5,932	5,764	5,516	5,278
	<u>45,140</u>	<u>43,868</u>	<u>42,464</u>	<u>41,106</u>
In millions:				
Tuition and fee revenue billed	\$ 103.8	106.6	107.8	107.6
Student financial aid grants:				
Funds without donor restrictions	40.4	40.5	40.2	39.6
Funds with donor restrictions	7.7	6.6	5.2	5.2
Total university grant aid	<u>48.1</u>	<u>47.1</u>	<u>45.4</u>	<u>44.8</u>
Government aid grants to students administered by the University:				
Pell and other federal	4.7	5.1	5.1	5.0
Ohio Opportunity and other state	2.2	2.2	2.3	1.5
Total grant aid administered	<u>6.9</u>	<u>7.3</u>	<u>7.4</u>	<u>6.5</u>
Total grant aid	<u>55.0</u>	<u>54.4</u>	<u>52.8</u>	<u>51.3</u>
Grant aid percentage of tuition and fees billed	53%	51%	49%	48%

See accompanying independent auditors' report.

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2020, 2019, 2018, and 2017

In millions:	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Activities summary:				
Tuition and fees	\$ 103.8	106.6	107.8	107.6
Less student financial aid grants	<u>48.0</u>	<u>47.1</u>	<u>45.4</u>	<u>44.8</u>
Net tuition and fees	55.8	59.5	62.4	62.8
Contributions:				
Available for current operations	4.9	5.7	5.7	6.3
For investment in plant and endowment	8.9	5.6	19.4	3.4
Change in pledges	5.7	(0.2)	1.3	(0.2)
CARES Act	2.3	—	—	—
Government grants:				
College Work-Study, Upward Bound, other	1.6	1.7	1.5	1.6
Endowment and similar investments:				
Income and gains distribution	7.5	7.2	6.8	6.4
Auxiliary enterprises:				
Residence and dining halls, bookstore, rentals, vending	16.1	20.2	20.0	20.3
Other income	<u>1.0</u>	<u>2.0</u>	<u>1.4</u>	<u>1.5</u>
Totals	103.8	101.7	118.5	102.1
Expenses	<u>105.6</u>	<u>102.2</u>	<u>101.7</u>	<u>101.8</u>
Net revenue	(1.8)	(0.5)	16.8	0.3
Endowment and similar investment gains (losses) after distribution	(2.0)	3.4	6.3	12.5
Loss on sale of donated real estate	—	—	—	(2.9)
Voluntary employee separation incentives	<u>(3.3)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Increase (decrease) in net assets	<u>\$ (7.1)</u>	<u>2.9</u>	<u>23.1</u>	<u>9.9</u>
Financial position summary:				
Operating assets	\$ 29.1	35.5	39.5	24.3
Endowment and similar assets, at fair value	178.0	179.6	174.7	164.5
Property and equipment, at cost less depreciation allowance	<u>155.4</u>	<u>145.9</u>	<u>141.9</u>	<u>133.6</u>
Total assets	362.5	361.0	356.1	322.4
Liabilities	<u>48.1</u>	<u>39.5</u>	<u>37.6</u>	<u>27.0</u>
Net assets	<u>\$ 314.4</u>	<u>321.5</u>	<u>318.5</u>	<u>295.4</u>

See accompanying independent auditors' report