

LOURDES UNIVERSITY

Independent Auditor's Report and Consolidated Financial Statements
June 30, 2019 and 2018

Lourdes University

June 30, 2019 and 2018

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Lourdes University and Subsidiaries
Sylvania, Ohio

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lourdes University and Subsidiaries (University), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses 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 consolidated 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 consolidated 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 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 auditor's 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 Lourdes University and Subsidiaries as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, 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 information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated October 7, 2019, 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.

BKD, LLP

Fort Wayne, Indiana
October 7, 2019

Lourdes University
Consolidated Statements of Financial Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|---|--------------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,917,689 | \$ 3,593,252 |
| Investments | 13,377,459 | 12,592,516 |
| Receivables | | |
| Student accounts, less allowance for doubtful accounts of \$441,000 at 2019 and 2018 | 1,440,566 | 831,460 |
| Student loans, less allowance for doubtful accounts of \$12,500 at 2019 and 2018 | 697,132 | 732,876 |
| Contributions, less allowance for doubtful accounts of \$20,000 at 2019 and \$37,500 at 2018 | 639,817 | 433,989 |
| Grants | 129,002 | 72,761 |
| Other | <u>833,252</u> | <u>323,837</u> |
| Total receivables | 3,739,769 | 2,394,923 |
| Prepaid expenses | 1,367,393 | 875,627 |
| Deferred tax asset | 35,411 | 36,778 |
| Deposits and other | 51,611 | 51,021 |
| Property and equipment, net | 35,510,787 | 37,382,578 |
| Beneficial interest in perpetual trusts | <u>1,227,819</u> | <u>1,226,451</u> |
| Total assets | <u>\$ 58,227,938</u> | <u>\$ 58,153,146</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | | |
| Accounts payable | \$ 1,151,071 | \$ 1,073,081 |
| Salaries and withholdings | 324,892 | 325,156 |
| Deposits and prepaid fees | 1,332,966 | 1,253,763 |
| Capital lease | 207,857 | 408,891 |
| Short-term financing | 1,000,000 | — |
| Long-term debt | 22,923,800 | 23,634,493 |
| Annuities payable | 17,631 | 14,475 |
| Advances from government for federal loans | <u>478,492</u> | <u>478,492</u> |
| Total liabilities | <u>27,436,709</u> | <u>27,188,351</u> |
| Net Assets | | |
| Without donor restrictions | 19,630,727 | 20,368,407 |
| With donor restrictions | <u>11,160,502</u> | <u>10,596,388</u> |
| Total net assets | <u>30,791,229</u> | <u>30,964,795</u> |
| Total liabilities and net assets | <u>\$ 58,227,938</u> | <u>\$ 58,153,146</u> |

Lourdes University
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

| | 2019 | | |
|---|---|------------------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues, Gains and Other Support | | | |
| Student tuition and fees | \$ 23,748,283 | \$ — | \$ 23,748,283 |
| Less student aid | <u>(8,430,014)</u> | <u>—</u> | <u>(8,430,014)</u> |
| | 15,318,269 | — | 15,318,269 |
| Auxiliary | 4,563,207 | — | 4,563,207 |
| Grants | | | |
| Government for student aid | 198,594 | — | 198,594 |
| Government for programs | <u>1,261,080</u> | <u>—</u> | <u>1,261,080</u> |
| | 1,459,674 | — | 1,459,674 |
| Contribution from Sisters of St. Francis | 5,061,848 | — | 5,061,848 |
| Other contributions, including promises to give | 278,032 | 817,380 | 1,095,412 |
| Investment return designated for current operations | 243,891 | 343,878 | 587,769 |
| Other revenue | 200,364 | 95,669 | 296,033 |
| Net assets released from restriction | <u>827,859</u> | <u>(827,859)</u> | <u>—</u> |
| Total revenues, gains and other support | <u>27,953,144</u> | <u>429,067</u> | <u>28,382,211</u> |
| Expenses and Losses | | | |
| Instruction | 8,849,365 | — | 8,849,365 |
| Student services | 4,792,105 | — | 4,792,105 |
| Auxiliary | 4,324,523 | — | 4,324,523 |
| Sponsored instruction | 1,516,519 | — | 1,516,519 |
| Institutional support | 7,882,441 | — | 7,882,441 |
| Institutional advancement | <u>1,451,554</u> | <u>—</u> | <u>1,451,554</u> |
| Total expenses and losses | <u>28,816,507</u> | <u>—</u> | <u>28,816,507</u> |
| Change in Net Assets From Operations | (863,363) | 429,067 | (434,296) |
| Nonoperating Revenue and Expenses | | | |
| Change in value of split-interest agreements | (1,842) | 1,368 | (474) |
| Investment return in excess of designated for current operations | <u>127,525</u> | <u>133,679</u> | <u>261,204</u> |
| Change in net assets | <u>(737,680)</u> | 564,114 | <u>(173,566)</u> |
| Net Assets, Beginning of Year | <u>20,368,407</u> | <u>10,596,388</u> | <u>30,964,795</u> |
| Net Assets, End of Year | <u>\$ 19,630,727</u> | <u>\$ 11,160,502</u> | <u>\$ 30,791,229</u> |

2018

| Without Donor Restrictions | With Donor Restrictions | Total |
|---|------------------------------------|----------------------|
| \$ 23,025,485 | \$ — | \$ 23,025,485 |
| <u>(7,577,526)</u> | <u>—</u> | <u>(7,577,526)</u> |
| 15,447,959 | — | 15,447,959 |
| 4,409,491 | — | 4,409,491 |
| 142,569 | — | 142,569 |
| <u>1,496,248</u> | <u>—</u> | <u>1,496,248</u> |
| 1,638,817 | — | 1,638,817 |
| 4,458,848 | — | 4,458,848 |
| 540,044 | 362,686 | 902,730 |
| 234,153 | 322,631 | 556,784 |
| 172,613 | 82,078 | 254,691 |
| <u>790,497</u> | <u>(790,497)</u> | <u>—</u> |
| <u>27,692,422</u> | <u>(23,102)</u> | <u>27,669,320</u> |
| 9,281,201 | — | 9,281,201 |
| 4,601,255 | — | 4,601,255 |
| 4,553,636 | — | 4,553,636 |
| 1,156,250 | — | 1,156,250 |
| 7,409,965 | — | 7,409,965 |
| <u>1,526,916</u> | <u>—</u> | <u>1,526,916</u> |
| <u>28,529,223</u> | <u>—</u> | <u>28,529,223</u> |
| (836,801) | (23,102) | (859,903) |
| 17,766 | 43,834 | 61,600 |
| <u>175,721</u> | <u>146,050</u> | <u>321,771</u> |
| (643,314) | 166,782 | (476,532) |
| <u>21,011,721</u> | <u>10,429,606</u> | <u>31,441,327</u> |
| <u>\$ 20,368,407</u> | <u>\$ 10,596,388</u> | <u>\$ 30,964,795</u> |

Lourdes University
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------------|-----------------------------------|
| Operating Activities | | |
| Change in net assets | \$ (173,566) | \$ (476,532) |
| Items not requiring (providing) operating activities cash flows | | |
| Depreciation and amortization | 2,467,763 | 2,620,687 |
| Net realized and unrealized gains on investments | (177,462) | (370,114) |
| Provision for bad debts | 219,059 | 241,429 |
| Donor restricted contributions for long-term purposes | (220,928) | (297,271) |
| Gain on beneficial trust | (1,368) | (18,455) |
| Gain on disposal of asset | — | (272) |
| Changes in | | |
| Receivables | (1,563,905) | 218,745 |
| Prepaid expenses | (491,766) | 96,421 |
| Accounts payable and accrued expenses | 77,726 | 95,960 |
| Deposits and prepaid fees | 79,203 | (149,591) |
| Other assets and liabilities | 3,933 | (82,745) |
| Net cash provided by operating activities | <u>218,689</u> | <u>1,878,262</u> |
| Investing Activities | | |
| Purchases of property and equipment | (557,611) | (543,225) |
| Sale of equipment | — | 2,912 |
| Purchase of investments | (633,023) | (1,588,754) |
| Sale of investments | <u>25,542</u> | <u>1,220,571</u> |
| Net cash used in investing activities | <u>(1,165,092)</u> | <u>(908,496)</u> |
| Financing Activities | | |
| Donor restricted contributions for long-term purposes | 220,928 | 297,271 |
| Lease payments | (201,033) | (186,480) |
| Borrowings under line of credit agreement | 1,000,000 | — |
| Principal payments on long-term debt | <u>(749,055)</u> | <u>(766,913)</u> |
| Net cash provided by (used in) financing activities | <u>270,840</u> | <u>(656,122)</u> |
| (Decrease) Increase in Cash and Cash Equivalents | (675,563) | 313,644 |
| Cash and Cash Equivalents, Beginning of Year | <u>3,593,252</u> | <u>3,279,608</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 2,917,689</u></u> | <u><u>\$ 3,593,252</u></u> |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 939,545 | \$ 879,800 |

Lourdes University
Statements of Functional Expenses
Year Ended June 30, 2019

| | Program Services | | | | 2019 Total Program | Support Services | | 2019 Total Expenses |
|-----------------------------|---------------------|---------------------|---------------------|--------------------------|-----------------------|---------------------------|------------------------------|---------------------------|
| | Instructional | Student Services | Auxiliary | Sponsored Instruction | | Administrative Support | Institutional Advancement | |
| Salaries and wages | \$ 5,800,955 | \$ 1,994,516 | \$ 188,607 | \$ 537,474 | \$ 8,521,552 | \$ 1,279,715 | \$ 649,324 | \$ 10,450,591 |
| Employee benefits | 1,397,824 | 617,906 | 44,131 | 142,010 | 2,201,871 | 608,960 | 225,830 | 3,036,661 |
| Service, supplies and other | 371,347 | 695,604 | 1,078,680 | 687,070 | 2,832,701 | 83,994 | 429,214 | 3,345,909 |
| Dues and memberships | 24,332 | 33,298 | - | - | 57,630 | 84,883 | 3,743 | 146,256 |
| Professional fees | 14,540 | 202,925 | 165 | 27,621 | 245,251 | 1,457,183 | 90,126 | 1,792,560 |
| Travel expense | 91,383 | 433,659 | 4,747 | 103,325 | 633,114 | 84,208 | 5,287 | 722,609 |
| Occupancy and maintenance | 487,836 | 497,427 | 1,520,099 | 19,019 | 2,524,381 | 2,556,799 | 19,485 | 5,100,665 |
| Insurance | 221 | 7,166 | - | - | 7,387 | 372,358 | - | 379,745 |
| Interest | - | - | - | - | - | 939,545 | - | 939,545 |
| Bad debt | - | - | 719 | - | 719 | 218,340 | - | 219,059 |
| Affiliates | - | - | 215,144 | - | 215,144 | - | - | 215,144 |
| Depreciation | 660,927 | 309,604 | 1,272,231 | - | 2,242,762 | 196,456 | 28,545 | 2,467,763 |
| | <u>\$ 8,849,365</u> | <u>\$ 4,792,105</u> | <u>\$ 4,324,523</u> | <u>\$ 1,516,519</u> | <u>\$ 19,482,512</u> | <u>\$ 7,882,441</u> | <u>\$ 1,451,554</u> | <u>\$ 28,816,507</u> |

Lourdes University
Consolidated Statements of Functional Expenses
Year Ended June 30, 2018

| | Program Services | | | | 2018 Total Program | Support Services | | 2018 Total Expenses |
|-----------------------------|---------------------|---------------------|---------------------|--------------------------|-----------------------|---------------------------|------------------------------|---------------------------|
| | Instructional | Student Services | Auxiliary | Sponsored Instruction | | Administrative Support | Institutional Advancement | |
| Salaries and wages | \$ 5,924,833 | \$ 1,780,367 | \$ 169,644 | \$ 543,160 | \$ 8,418,004 | \$ 1,561,594 | \$ 659,918 | \$ 10,639,516 |
| Employee benefits | 1,472,245 | 515,046 | 40,005 | 138,073 | 2,165,369 | 721,438 | 222,007 | 3,108,814 |
| Service, supplies and other | 369,894 | 748,344 | 1,004,064 | 357,782 | 2,480,084 | 732,676 | 486,729 | 3,699,489 |
| Dues and memberships | 30,636 | 38,253 | 52 | - | 68,941 | 85,926 | 724 | 155,591 |
| Professional fees | 16,549 | 245,539 | - | 51,159 | 313,247 | 464,528 | 97,200 | 874,975 |
| Travel expense | 86,479 | 376,436 | 3,584 | 50,905 | 517,404 | 38,579 | 2,820 | 558,803 |
| Occupancy and maintenance | 674,019 | 559,273 | 1,721,927 | 15,171 | 2,970,390 | 2,130,274 | 27,003 | 5,127,667 |
| Insurance | - | 7,025 | - | - | 7,025 | 354,725 | - | 361,750 |
| Interest | - | - | - | - | - | 918,161 | - | 918,161 |
| Bad debt | - | - | 8,374 | - | 8,374 | 233,056 | - | 241,430 |
| Affiliates | - | - | 495,700 | - | 495,700 | - | - | 495,700 |
| Depreciation | 706,546 | 330,972 | 1,110,286 | - | 2,147,804 | 169,008 | 30,515 | 2,347,327 |
| | <u>\$ 9,281,201</u> | <u>\$ 4,601,255</u> | <u>\$ 4,553,636</u> | <u>\$ 1,156,250</u> | <u>\$ 19,592,342</u> | <u>\$ 7,409,965</u> | <u>\$ 1,526,916</u> | <u>\$ 28,529,223</u> |

Lourdes University

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

Nature of Operations

Lourdes University (University) is a sponsored ministry of the Sisters of St. Francis of Sylvania, Ohio (Sisters). The University is a private, coeducational university accredited by The Ohio Department of Higher Education, The Higher Learning Commission and the Ohio State Department of Education. The University is organized into four colleges: Arts and Sciences; Business and Leadership; Social Sciences; and Nursing and offers 33 majors. The University's revenues and other support are derived principally from tuition and fees, residence and dining fees, contributions and federal and state grants.

Principles of Consolidation

The consolidated financial statements include accounts of Lourdes University and its Subsidiaries: Center Enterprises, Limited (Enterprises); Lourdes Properties, Limited (Properties); and Lourdes Main Street Properties, Limited (Main Street Properties), collectively, Lourdes.

Enterprises was formed in 2001 by the Franciscan Center (Center) as a limited liability company and the Center leases a portion of its property to Enterprises to provide food and beverage catering at various events held at the Center. The term of the lease is on a month-to-month basis until terminated by one of the parties. The Center is a department of the University.

Properties was formed in 2002 by the University as a limited liability company to account for the transactions of the University's rental properties. Properties had previously disposed of its assets in 2003; however, it was reactivated in fiscal year 2007 and includes the University's public rental apartments.

Main Street Properties was formed in 2008 by the University as a limited liability company to account for a transaction to purchase a piece of property near the University.

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 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. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts and repurchase agreements.

Lourdes University

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The University maintains interest-bearing cash balances at multiple financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2019, the University's interest-bearing cash accounts exceeded federally insured limits by approximately \$2,049,000.

Cash and cash equivalents related to uninvested cash are considered part of investments in the accompanying consolidated financial statements.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and realized and unrealized gains and losses on investments carried at fair value.

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 with donor restrictions and then released from restriction. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions

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 monthly 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 investments accounts, as adjusted for additions to or deductions from those accounts.

Student Accounts Receivable and Loans

Accounts receivable are stated at the amount billed to students 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 a payment plan established. Charges that are unpaid and past due 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.

Student loans receivable consist primarily of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amounts, net of allowance for doubtful accounts. 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 on a review of outstanding loans, historical collection information and existing economic conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|------------------------|-------------|
| Building | 30-40 years |
| Leasehold improvements | 5-15 years |
| Equipment | 3-10 years |
| Furniture and fixtures | 3-10 years |
| Vehicles | 5 years |

Net Asset Classifications

The following classes of net assets are maintained:

Without Donor Restrictions Net Assets

Net assets available for use in general operations and not subject to donor restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board-designated endowment.

With Donor Restrictions Net Assets

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. 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 statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Lourdes University

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Deferred Revenue

Revenue from tuition and fees is deferred and recognized over the periods to which the fees relate.

Government Grants

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The University is exempt from income taxes under Section 501 of the 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. Center Enterprises, Limited; Lourdes Properties, Limited; and Lourdes Main Street Properties, Limited are wholly-owned limited liability companies that have elected to be treated as disregarded entities for U.S. tax purposes.

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, 2019 and 2018.

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fund raising categories based on their square footage.

Note 2: 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:

| | 2019 | 2018 |
|-------------------------------|----------------------|---------------------|
| Cash | \$ 2,774,388 | \$ 3,514,052 |
| Receivables | 2,451,515 | 1,266,563 |
| Investments | 5,586,667 | 5,131,767 |
| Perpetual trusts distribution | 62,794 | 60,000 |
| | <u>\$ 10,875,364</u> | <u>\$ 9,972,382</u> |

The University's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure. Although the University does not intend to spend from the Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

| | 2019 | 2018 |
|--------------------------------------|----------------------|----------------------|
| Money market funds | \$ 2,043,753 | \$ 1,588,593 |
| Fixed income funds (nongovernmental) | 4,300,087 | 4,071,730 |
| Mutual funds | | |
| Domestic | 4,550,957 | 4,468,691 |
| International | 2,482,662 | 2,463,502 |
| | <u>\$ 13,377,459</u> | <u>\$ 12,592,516</u> |

Lourdes University
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Total investment return is comprised of the following:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Interest and dividend income | \$ 671,411 | \$ 508,441 |
| Net realized and unrealized gains on investments reported at fair value | <u>177,562</u> | <u>370,114</u> |
| | 848,973 | 878,555 |
| Investment return designated for current operations | <u>(587,769)</u> | <u>(556,784)</u> |
| Investment return in excess designated for current operations | <u>\$ 261,204</u> | <u>\$ 321,771</u> |

Note 4: Contributions Receivable

Contributions receivable consisted of the following:

| | <u>June 30, 2019</u> | | |
|---|-----------------------------|--------------------------|-------------------|
| | <u>Without Restrictions</u> | <u>With Restrictions</u> | <u>Total</u> |
| Due within one year | \$ 48,695 | \$ 229,059 | \$ 277,754 |
| Due in one to five years | <u>86,624</u> | <u>295,439</u> | <u>382,063</u> |
| | 135,319 | 524,498 | 659,817 |
| Less | | | |
| Allowance for uncollectible contributions | <u>(4,102)</u> | <u>(15,898)</u> | <u>(20,000)</u> |
| | <u>\$ 131,217</u> | <u>\$ 508,600</u> | <u>\$ 639,817</u> |
| | <u>June 30, 2018</u> | | |
| | <u>Without Restrictions</u> | <u>With Restrictions</u> | <u>Total</u> |
| Due within one year | \$ 38,505 | \$ 195,233 | \$ 233,738 |
| Due in one to five years | <u>58,977</u> | <u>178,774</u> | <u>237,751</u> |
| | 97,482 | 374,007 | 471,489 |
| Less | | | |
| Allowance for uncollectible contributions | <u>(7,753)</u> | <u>(29,747)</u> | <u>(37,500)</u> |
| | <u>\$ 89,729</u> | <u>\$ 344,260</u> | <u>\$ 433,989</u> |

Discount rates ranged from 1.71 percent to 2 percent and from 2.52 percent to 2.85 percent for 2019 and 2018, respectively. There are no discounts related to pledges due within one year; however, pledges due from one to five years are shown net of discount.

Lourdes University
Notes to Consolidated Financial Statements
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Note 5: Beneficial Interest in Perpetual Trusts

The University is the beneficiary under 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 the trusts. The estimated value of the expected future cash flows is \$1,227,819 and \$1,226,451, which also represents the fair value of the trust assets at June 30, 2019 and 2018, respectively.

Note 6: Property and Equipment

Property and equipment at June 30 consists of:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Land and land improvements | \$ 7,351,073 | \$ 7,351,073 |
| Leasehold improvements | 13,166,715 | 12,452,385 |
| Equipment | 11,083,932 | 10,883,853 |
| Vehicles | 267,007 | 312,323 |
| Theater equipment | 193,213 | 181,686 |
| Building | 27,611,936 | 27,611,936 |
| Construction in progress | <u>2,158</u> | <u>373,484</u> |
| | 59,676,034 | 59,166,740 |
| Less accumulated depreciation and amortization | <u>(24,165,247)</u> | <u>(21,784,162)</u> |
| | <u>\$ 35,510,787</u> | <u>\$ 37,382,578</u> |

Note 7: Lines of Credit

The University has a \$1,000,000 line of credit with a commercial bank with interest rate of Prime Lending Rate + 0 percent with a minimum interest rate of no less than 3.25 percent per annum at any time. The Prime Lending Rate shall mean the prime interest rate as published in the money section of the Wall Street Journal. The line of credit has an initial ending date on October 31, 2019. At June 30, 2019, the University has borrowed \$1,000,000 against this line. There were no borrowings on the line at June 30, 2018.

Lourdes University
Notes to Consolidated Financial Statements
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Note 8: Long-Term Debt

| | 2019 | 2018 |
|--|---------------------------------------|---------------------------------------|
| 2013 Toledo-Lucas County Port Authority Bonds Series A, fixed interest rate at 3.93%, interest due monthly along with monthly principal payments beginning in January 2017 and maturing in December 2038. Unamortized debt issuance costs were \$108,032 and \$115,483 at June 30, 2019 and 2018, respectively. | \$ 9,309,541 | \$ 9,620,147 |
| 2013 Toledo-Lucas County Port Authority Bonds Series A, variable interest rate of one-month LIBOR plus 277 basis points multiplied by 65.01% (effective rate of 3.36% at June 30, 2019), interest due monthly along with monthly principal payments beginning in January 2017 and maturing in December 2038. Unamortized debt issuance costs were \$108,032 and \$115,483 at June 30, 2019 and 2018, respectively. | 9,136,072 | 9,513,015 |
| Note payable, interest rate is 2.5%, payable monthly with a maturity date of November 23, 2020. Unamortized debt issuance costs were \$33,236 and \$56,696 at June 30, 2019 and 2018, respectively. | <u>4,727,487</u> | <u>4,788,993</u> |
| Less unamortized debt issuance costs | <u>23,173,100</u> <u>(249,300)</u> | <u>23,922,155</u> <u>(287,662)</u> |
| | <u>\$ 22,923,800</u> | <u>\$ 23,634,493</u> |

The terms of the loan agreement for the 2013 Series bonds direct purchase agreement with the financial institution provide for a mortgage on certain facilities and the University pledging all its revenues to the financial institution. The loan agreement also requires the University to meet certain financial covenants on an ongoing basis.

Aggregate annual maturities of long-term debt at June 30, 2019, are:

| | Long-Term Debt |
|------------|-----------------------|
| 2020 | \$ 755,280 |
| 2021 | 5,407,693 |
| 2022 | 750,729 |
| 2023 | 773,210 |
| 2024 | 795,829 |
| Thereafter | <u>14,690,359</u> |
| | <u>\$ 23,173,100</u> |

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 9: Capital Lease

The University entered into a non-cancellable capital lease for equipment expiring in 2020.

Aggregate annual maturities of lease payments at June 30, 2019, are:

| | Lease |
|-----------------------------------|--------------|
| 2020 | \$ 217,863 |
| Less amount representing interest | (10,006) |
| | \$ 207,857 |

Property and equipment include the following property under capital leases at June 30:

| | 2019 | 2018 |
|-------------------------------|-------------|-------------|
| Equipment | \$ 892,708 | \$ 892,708 |
| Less accumulated depreciation | (490,636) | (359,800) |
| | \$ 402,072 | \$ 532,908 |

Note 10: Annuities Payable

The University has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2019 and 2018, of \$17,631 and \$14,475, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 3 percent.

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Net Assets With Donor Restrictions

Net assets with purpose donor restrictions at June 30, 2019 and 2018, are restricted for the following purposes:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Subject to expenditure for specified purpose | | |
| Scholarships and student loans | \$ 843,916 | \$ 456,764 |
| Other restricted activities | 399,707 | 436,277 |
| Athletics | <u>116,463</u> | <u>107,678</u> |
| | <u>1,360,086</u> | <u>1,000,719</u> |
| Endowments | | |
| Subject to endowment spending policy or appropriation | 934,415 | 805,197 |
| Subject to appropriation and expenditure when a specified event occurs | | |
| Restricted by donors for | | |
| Scholarships | 4,535,297 | 4,462,924 |
| Educational programs | 1,636,898 | 1,634,238 |
| Operations | 1,082,254 | 1,087,587 |
| Others | 84,062 | 84,062 |
| Underwater endowments | <u>(537)</u> | <u>(4,998)</u> |
| | <u>8,272,389</u> | <u>8,069,010</u> |
| Not subject to endowment spending policy or appropriation | | |
| Interests in perpetual trusts | 1,227,819 | 1,226,451 |
| Donor restricted loan funds | <u>300,208</u> | <u>300,208</u> |
| | <u>1,528,027</u> | <u>1,526,659</u> |
| Total | <u>9,800,416</u> | <u>9,595,669</u> |
| Total net assets with donor restrictions | <u>\$ 11,160,502</u> | <u>\$ 10,596,388</u> |

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:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------------|-------------------|
| Scholarships | \$ 461,186 | \$ 426,283 |
| Miscellaneous non-scholarships | 259,258 | 256,361 |
| Lecture series | 2,900 | 4,541 |
| Mission and ministry | (370) | 11,550 |
| Athletics | 103,851 | 89,645 |
| Library | <u>1,034</u> | <u>2,117</u> |
| | <u>\$ 827,859</u> | <u>\$ 790,497</u> |

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 12: Endowment

The University's endowment consists of approximately 70 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body has interpreted the State of Ohio Prudent Management of Institutional Funds Act (SPMIFA) 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 permanently restricted net assets (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 SPMIFA. In accordance with SPMIFA, 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, 2019 and 2018, was:

| | 2019 | | |
|---|---------------------------------------|------------------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Board-designated endowment funds | \$ 300,000 | — | \$ 300,000 |
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | — | 7,221,478 | 7,221,478 |
| Accumulated investment gains | — | 933,878 | 933,878 |
| Total endowment funds | <u>\$ 300,000</u> | <u>\$ 8,155,356</u> | <u>\$ 8,455,356</u> |

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

| | 2018 | | |
|---|---------------------------------------|------------------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Board-designated endowment funds | \$ 300,000 | — | \$ 300,000 |
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | — | 7,000,550 | 7,000,550 |
| Accumulated investment gains | — | 800,199 | 800,199 |
| Total endowment funds | \$ 300,000 | \$ 7,800,749 | \$ 8,100,749 |

Changes in endowment net assets for the years ended June 30, 2019 and 2018, were:

| | 2019 | | |
|--|---------------------------------------|------------------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | \$ 300,000 | \$ 7,800,749 | \$ 8,100,749 |
| Total investment return, net | — | 475,255 | 475,255 |
| Contributions | — | 220,928 | 220,928 |
| Transfers in | — | 22,988 | 22,988 |
| Appropriation of endowment assets for expenditure | — | (364,564) | (364,564) |
| Endowment net assets, end of year | \$ 300,000 | \$ 8,155,356 | \$ 8,455,356 |

| | 2018 | | |
|--|---------------------------------------|------------------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | \$ 300,000 | \$ 7,310,488 | \$ 7,610,488 |
| Total investment return, net | — | 478,525 | 478,525 |
| Contributions | — | 297,271 | 297,271 |
| Transfers in | — | 51,941 | 51,941 |
| Appropriation of endowment assets for expenditure | — | (337,476) | (337,476) |
| Endowment net assets, end of year | \$ 300,000 | \$ 7,800,749 | \$ 8,100,749 |

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 SPMIFA. At June 30, 2019 and 2018, funds with original gift values of \$147,375 and \$596,074, fair values of \$146,838 and \$591,076, and deficiencies of \$537 and \$4,998, respectively, were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

Lourdes University

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 or for donor-specified periods, as well as those of Board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to produce results that exceed the ratio of inflation (Consumer Price Index) plus 5.0 percent while assuming a moderate level of investment risk. The University expects its endowment funds to provide an average rate of return of approximately 8.0 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.

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 over the prior 12 quarters through the calendar year-end preceding the year in which expenditure is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. 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.

Note 13: Related Party Transactions

The University has two lease agreements with the Congregation for use of the Congregation's buildings. These leases renew annually. No rent is charged under these agreements; however, the University is responsible for all operating and capital costs of the buildings. The fair value of the leases of \$958,848 was recorded as rental expense in 2019 and 2018 and a similar offsetting amount was recorded as a contribution revenue.

The University also leases 3.499 acres of land from the Congregation at no charge. This lease renews annually. The University pays real estate taxes, assessments, utilities, improvements, maintenance and all other costs associated with the land. The University granted, with the permissions of the Congregation, a mortgage leasehold interest in this ground lease as collateral to a bank.

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 14: Employee Retirement Benefits

The University participated with other affiliated organizations in the Sisters of St. Francis Lay Employees' Retirement Plan (Plan), which was a noncontributory defined benefit retirement plan covering eligible lay employees. Effective December 31, 2013, the Plan was frozen and all pension Plan benefits earned through that date were immediately vested for all participants who were actively employed with the University and other affiliated organizations on December 31, 2013. The defined benefit Plan was replaced with a defined contribution pension Plan as of January 1, 2014.

The Plan was accounted for as a multi-employer pension plan. Accordingly, the University recorded its required contributions to the Plan as net periodic pension expense. The financial risks of participating in multi-employer plans are different from single employer defined benefit pension plans in that assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

Effective July 1, 2015, participating employers in the Plan were no longer required to make contributions, which had been determined as an amount equal to a percentage of projected covered compensation.

Effective December 31, 2015, the Plan was terminated. The Congregation elected to pay the amount by which there was a shortfall between the fair value of plan assets and the accumulated benefit obligation.

Subsequent to December 31, 2017, the final calculation of annuity benefits due to the remaining plan participants was completed. The final calculated shortfall between the value of the plan assets and the amount needed to fund the annuity benefits was approximately \$2.7 million. The remaining liability recorded by the Congregation as of December 31, 2017, was sufficient to cover the benefits and the remaining administrative fees associated with the Plan termination.

Defined Contribution Plan

Effective January 1, 2014, employees are eligible to participate in a newly created 403(b) defined contribution benefit plan. The University provides employees with an employer basic contribution equal to 1 percent of compensation, plus a matching contribution equal to 50 percent of the first 6 percent that employees contribute, resulting in a maximum matching contribution of 3 percent of compensation. Employees become 100 percent vested in the 1 percent basic contribution after three years of service and are immediately vested in the matching contribution. Pension expense was \$269,898 and \$278,387 for the years ended June 30, 2019 and 2018, respectively.

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities 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, 2019 and 2018:

| | Fair Value | Fair Value Measurements Using | | |
|---|--------------|--|---|--|
| | | 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 | \$ 2,043,753 | \$ 2,043,753 | \$ — | \$ — |
| Fixed income nongovernmental funds | 4,300,087 | 4,300,087 | — | — |
| Mutual funds | | | | |
| Domestic | 4,550,957 | 4,550,957 | — | — |
| International | 2,482,662 | 2,482,662 | — | — |
| Beneficial interest in perpetual trust | 1,227,819 | — | — | 1,227,819 |

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

| | Fair Value | Fair Value Measurements Using | | |
|---|--------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2018 | | | | |
| Investments | | | | |
| Money market funds | \$ 1,588,593 | \$ 1,588,593 | \$ — | \$ — |
| Fixed income nongovernmental funds | 4,071,730 | 4,071,730 | — | — |
| Mutual funds | | | | |
| Domestic | 4,468,691 | 4,468,691 | — | — |
| International | 2,463,502 | 2,463,502 | — | — |
| Beneficial interest in perpetual trust | 1,226,451 | — | — | 1,226,451 |

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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. There were no Level 3 investments.

Beneficial Interest in Perpetual Trust

Fair value is estimated using the fair value of the assets contributed to the trust which also approximates the present value of the future cash flows expected to be received over the term of the agreement. The University does not make any adjustments to these values. Due to the nature of the valuation input, the interest is classified within Level 3 of the hierarchy.

Lourdes University
Notes to Consolidated Financial Statements
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Fair value determinations for Level 3 measurements are the responsibility of the Office of Finance and Administration. The Office of Finance and Administration obtains valuation information from third parties as needed to generate fair value estimates. The Office of Finance and Administration 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 of America.

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:

| | Beneficial Interest in Perpetual Trust |
|---|---|
| Balance, June 30, 2017 | \$ 1,207,996 |
| Total realized and unrealized gains and losses included in change of net assets | |
| Unrealized depreciation on trust | <u>18,455</u> |
| Balance, June 30, 2018 | 1,226,451 |
| Total realized and unrealized gains and losses included in change of net assets | |
| Unrealized appreciation on trust | <u>1,368</u> |
| Balance, June 30, 2019 | <u>\$ 1,227,819</u> |
| Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date | |
| Year ended June 30, 2019 | <u>\$ 1,368</u> |
| Year ended June 30, 2018 | <u>\$ 18,455</u> |

Lourdes University
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 16: Significant Estimates and Concentrations

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:

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 the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement(s) of financial position.

Contributions

Approximately 82 percent of all contributions were received from one donor in 2019, a related party.

Note 17: Subsequent Event

Subsequent events have been evaluated through October 7, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

Lourdes University
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

| Federal Agency/Pass-Through Entity | Federal CFDA Number | Total Federal Expenditures |
|--|------------------------------------|---------------------------------------|
| U.S. Department of Agriculture | | |
| Pass-through from Ohio Department of Education Summer Food Service Program for Children | 10.579 | \$ <u>3,682</u> |
| U. S. Department of Education | | |
| Federal Supplemental Educational Opportunity Grant Program | 84.007 | 100,455 |
| Federal Work-Study Program | 84.033 | 93,640 |
| Federal Perkins Loan Program | 84.038 | 235,981 |
| Federal Pell Grant Program | 84.063 | 2,116,101 |
| Federal Direct Loans | 84.268 | 10,680,476 |
| Teacher Education Assistance for College and Higher Education Grants | 84.379 | 1,875 |
| Nurse Faculty Loan Program | 93.264 | <u>274,928</u> |
| Total Student Financial Assistance Program Cluster | | <u>13,503,456</u> |
| TRIO Student Support Services | 84.042 | 290,752 |
| TRIO Upward Bound Program | 84.047A | <u>298,811</u> |
| Total TRIO Cluster | | <u>598,563</u> |
| Total U.S. Department of Education | | <u>14,093,019</u> |
| U.S. Department of Health and Human Services | | |
| HRSA – Nursing Workforce Diversity | 93.178 | 386,634 |
| Nurse Anesthetist Traineeship | 93.124 | <u>53,986</u> |
| Total U.S. Department of Health and Human Services | | <u>440,621</u> |
| U.S. Department of Justice | | |
| Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus Program | 16.525 | 36,590 |
| Total expenditure of federal awards | | \$ <u>14,573,912</u> |

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Lourdes University under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Lourdes University, it is not intended to and does not present the financial position, changes in net assets or cash flows of Lourdes University.

Lourdes University
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Lourdes University has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. There were no subrecipients during the year ended June 30, 2019.
4. The federal loan programs listed subsequently are administered directly by Lourdes University and balances and transactions relating to these programs are included in the University's basic consolidated financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2019, consists of:

| CFDA Number | Program Name | Outstanding Balance at June 30, 2019 |
|--------------------|------------------------------|---|
| 84.038 | Federal Perkins Loan Program | \$ 178,793 |
| 93.264 | Nurse Faculty Loan Program | 255,271 |

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditor's Report

Board of Trustees
Lourdes University and Subsidiaries
Sylvania, Ohio

We have audited, 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, the consolidated financial statements of Lourdes University and Subsidiaries (University), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Fort Wayne, Indiana
October 7, 2019

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Trustees
Lourdes University and Subsidiaries
Sylvania, Ohio

Report on Compliance for Each Major Federal Program

We have audited Lourdes University and Subsidiaries' (University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, which we consider to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Fort Wayne, Indiana
October 7, 2019

Lourdes University
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Findings Required to be Reported by Government Auditing Standards

| Reference Number | Finding | Questioned Costs |
|------------------|---------|------------------|
|------------------|---------|------------------|

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

| Reference Number | Summary of Finding | Questioned Cost |
|------------------|--------------------|-----------------|
|------------------|--------------------|-----------------|

| | | |
|----------|--|--|
| 2019-001 | <p>Criteria or Specific Requirement – Special Tests and Provisions – Return of Title IV Funds – When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student’s withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution’s determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment (34 CFR Sections 668.22(a)(1)-(3)).</p> <p>Condition – The earned percentage, based upon the enrollment period determined and the amount of aid to return, was calculated incorrectly. The University returned the incorrect amount of funds to the Department of Education because of the error in the calculation.</p> <p>Questioned Costs – \$142, Federal Direct Loans, CFDA 84.268</p> <p>Context – Of a sample of six return of funds tested from a population of 27 performed during the examination period, three return of funds calculations were not performed correctly resulting in an incorrect amount of funds being returned to the Department of Education. Our sample was not, and was not intended to be, statistically valid.</p> <p>Cause – The University used the incorrect dates when determining the enrollment period.</p> <p>Effect – Due to using the incorrect dates, the University returned too many funds to the Department of Education.</p> <p>Identification as a Repeat Finding – N/A</p> <p>Recommendation – We recommend the University be diligent in performing secondary reviews to ensure the calculations are performed correctly.</p> | |
|----------|--|--|

Lourdes University
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

| Reference Number | Summary of Finding | Questioned Cost |
|---------------------|---|--------------------|
| | <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – The Financial Aid Director shall consult with the Department in calculating the number of days when a break occurs or any other unusual circumstance which affects the number of days in calculating the R2T4.</p> <p>The Financial Aid Director will train an employee to assist with the processing of the Drop Report, reassuring that all funds are processed timely.</p> | |

Lourdes University
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

| Reference Number | Summary of Finding | Questioned Cost |
|-----------------------------|----------------------------|----------------------------|
| | No matters are reportable. | |



Special Tests and Provisions – Return of Title IV Funds

Views of Responsible Officials and Planned Corrective Actions – The Financial Aid Director shall consult with the Department in calculating the number of days when a break occurs or any other unusual circumstance which affects the number of days in calculating the R2T4.

The Financial Aid Director will train an employee to assist with the processing of the Drop Report, reassuring that all funds are processed timely.

Individual Responsible:

Callie Zake
Financial Aid Director
419-517-7487

Anticipated Completion Date:

12/31/2019

