



Independent Auditor's Report and Consolidated Financial Statements

June 30, 2016 and 2015



University of Mount Union

June 30, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
University of Mount Union
Alliance, Ohio

We have audited the accompanying consolidated financial statements of the University of Mount Union (University) which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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 the 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. 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 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 University'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 University'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 financial position of the University of Mount Union as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
October 21, 2016

University of Mount Union
Consolidated Statements of Financial Position
June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------------|---------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 11,566,486 | \$ 10,272,159 |
| Accounts receivable, net of allowance; 2016 - \$335,486, 2015 - \$372,505 | 1,084,197 | 1,328,489 |
| Contributions receivable, net of allowance; 2016 - \$175,000, 2015 - \$325,000 | 2,140,221 | 2,702,417 |
| Inventory | 305,022 | 332,272 |
| Loans receivable | 3,419,240 | 3,505,731 |
| Investments – long-term | 109,916,304 | 118,150,668 |
| Beneficial interest in perpetual trusts and charitable remainder trusts | 5,648,599 | 6,210,586 |
| Annuity and life income funds held in trust | 6,217,685 | 6,342,600 |
| Property and equipment, net | 152,502,563 | 156,506,251 |
| Other assets | <u>477,874</u> | <u>474,819</u> |
| Total assets | <u>\$ 293,278,191</u> | <u>\$ 305,825,992</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 1,061,735 | \$ 1,472,219 |
| Debt | 31,737,792 | 33,901,022 |
| Accrued expenses | 5,226,026 | 5,599,805 |
| Annuities and trusts payable | 1,731,737 | 1,788,711 |
| Deposits and other | 1,237,544 | 1,313,697 |
| Advances from government for student loans | <u>3,197,889</u> | <u>3,175,845</u> |
| Total liabilities | <u>44,192,723</u> | <u>47,251,299</u> |
| Net Assets | | |
| Unrestricted | 123,435,311 | 123,432,966 |
| Temporarily restricted | 60,146,296 | 70,511,189 |
| Permanently restricted | <u>65,503,861</u> | <u>64,630,538</u> |
| Total net assets | <u>249,085,468</u> | <u>258,574,693</u> |
| Total liabilities and net assets | <u>\$ 293,278,191</u> | <u>\$ 305,825,992</u> |

University of Mount Union
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015

| | 2016 | | | Total |
|---|-----------------------|---------------------------|---------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue, Income and Other Support | | | | |
| Educational and general | | | | |
| Student tuition and fees | \$ 59,093,665 | \$ — | \$ — | \$ 59,093,665 |
| Less financial aid | <u>(27,593,047)</u> | <u>—</u> | <u>—</u> | <u>(27,593,047)</u> |
| Net student tuition and fees | 31,500,618 | — | — | 31,500,618 |
| Gifts and private grants | 3,047,597 | 192,305 | 1,045,789 | 4,285,691 |
| Investment return designated for operations | 6,050,000 | — | — | 6,050,000 |
| Change in value of split-interest agreements | — | (12,200) | (172,466) | (184,666) |
| Other income | <u>976,033</u> | <u>5,390</u> | <u>—</u> | <u>981,423</u> |
| Total educational and general revenue | 41,574,248 | 185,495 | 873,323 | 42,633,066 |
| Auxiliary enterprises | 14,423,202 | — | — | 14,423,202 |
| Net assets released from restrictions | <u>183,255</u> | <u>(183,255)</u> | <u>—</u> | <u>—</u> |
| Total revenue, income and other support | <u>56,180,705</u> | <u>2,240</u> | <u>873,323</u> | <u>57,056,268</u> |
| Expenses | | | | |
| Educational and general | | | | |
| Instruction | 17,182,165 | — | — | 17,182,165 |
| Academic support | 2,649,174 | — | — | 2,649,174 |
| Operation and maintenance of plant | 5,569,470 | — | — | 5,569,470 |
| Student services | 7,513,999 | — | — | 7,513,999 |
| Institutional support | 9,994,576 | — | — | 9,994,576 |
| Depreciation | <u>4,563,152</u> | <u>—</u> | <u>—</u> | <u>4,563,152</u> |
| Total educational and general expenses | <u>47,472,536</u> | <u>—</u> | <u>—</u> | <u>47,472,536</u> |
| Auxiliary enterprises | | | | |
| Debt service | 1,490,426 | — | — | 1,490,426 |
| Operations | 6,336,856 | — | — | 6,336,856 |
| Depreciation | <u>1,025,966</u> | <u>—</u> | <u>—</u> | <u>1,025,966</u> |
| Total auxiliary enterprises expenses | <u>8,853,248</u> | <u>—</u> | <u>—</u> | <u>8,853,248</u> |
| Total expenses | <u>56,325,784</u> | <u>—</u> | <u>—</u> | <u>56,325,784</u> |
| Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Other Items | | | | |
| Early retirement buyout | — | 2,240 | 873,323 | 730,484 |
| Investment return less amounts designated for operations | 189,730 | (10,367,133) | — | (10,177,403) |
| Change in value of interest rate swap | (42,306) | — | — | (42,306) |
| Net assets released from capital acquisition restrictions | — | — | — | — |
| Derecognition of trust | — | — | — | — |
| Change in donor restriction | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Change in Net Assets | 2,345 | (10,364,893) | 873,323 | (9,489,225) |
| Net Assets, Beginning of Year | <u>123,432,966</u> | <u>70,511,189</u> | <u>64,630,538</u> | <u>258,574,693</u> |
| Net Assets, End of Year | <u>\$ 123,435,311</u> | <u>\$ 60,146,296</u> | <u>\$ 65,503,861</u> | <u>\$ 249,085,468</u> |

See Notes to Consolidated Financial Statements

2015

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| \$ 59,113,952 | \$ — | \$ — | \$ 59,113,952 |
| <u>(26,802,800)</u> | <u>—</u> | <u>—</u> | <u>(26,802,800)</u> |
| 32,311,152 | — | — | 32,311,152 |
| 4,891,506 | 468,865 | 1,046,443 | 6,406,814 |
| 5,800,000 | 14,500 | — | 5,814,500 |
| — | (107,898) | (24,784) | (132,682) |
| <u>800,341</u> | <u>—</u> | <u>—</u> | <u>800,341</u> |
| 43,802,999 | 375,467 | 1,021,659 | 45,200,125 |
| 14,263,518 | — | — | 14,263,518 |
| <u>532,908</u> | <u>(532,908)</u> | <u>—</u> | <u>—</u> |
| <u>58,599,425</u> | <u>(157,441)</u> | <u>1,021,659</u> | <u>59,463,643</u> |
| 16,427,888 | — | — | 16,427,888 |
| 2,712,258 | — | — | 2,712,258 |
| 5,946,892 | — | — | 5,946,892 |
| 7,484,372 | — | — | 7,484,372 |
| 9,083,585 | — | — | 9,083,585 |
| <u>4,123,571</u> | <u>—</u> | <u>—</u> | <u>4,123,571</u> |
| <u>45,778,566</u> | <u>—</u> | <u>—</u> | <u>45,778,566</u> |
| 1,565,835 | — | — | 1,565,835 |
| 6,490,394 | — | — | 6,490,394 |
| <u>1,038,367</u> | <u>—</u> | <u>—</u> | <u>1,038,367</u> |
| <u>9,094,596</u> | <u>—</u> | <u>—</u> | <u>9,094,596</u> |
| <u>54,873,162</u> | <u>—</u> | <u>—</u> | <u>54,873,162</u> |
| 3,726,263 | (157,441) | 1,021,659 | 4,590,481 |
| (850,495) | — | — | (850,495) |
| 8,425 | (5,372,013) | — | (5,363,588) |
| (7,145) | — | — | (7,145) |
| 5,087,075 | (5,087,075) | — | — |
| — | (2,150,829) | — | (2,150,829) |
| <u>—</u> | <u>(821,986)</u> | <u>821,986</u> | <u>—</u> |
| 7,964,123 | (13,589,344) | 1,843,645 | (3,781,576) |
| <u>115,468,843</u> | <u>84,100,533</u> | <u>62,786,893</u> | <u>262,356,269</u> |
| <u>\$ 123,432,966</u> | <u>\$ 70,511,189</u> | <u>\$ 64,630,538</u> | <u>\$ 258,574,693</u> |

University of Mount Union
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Operating Activities | | |
| Change in net assets | \$ (9,489,225) | \$ (3,781,576) |
| Items not requiring (providing) operating activities cash flows | | |
| Realized and unrealized losses on investments | 10,898,479 | 3,760,593 |
| Gain on sale of property and equipment | — | 47,056 |
| Depreciation | 5,589,118 | 5,161,938 |
| Amortization of bond premium | (15,926) | (15,924) |
| Change in allowance for uncollectible accounts and contributions receivable | (187,019) | 4,447 |
| Derecognition of trust | — | 2,150,829 |
| Contributions received restricted for long-term investment | (1,045,789) | (1,046,443) |
| Contributions received restricted for acquisition of long-lived assets | (166,864) | (564,919) |
| Changes in | | |
| Accounts, loans and contributions receivable | 1,079,998 | 119,838 |
| Inventory | 27,250 | (3,112) |
| Other assets | (3,055) | 19,377 |
| Accounts payable and accrued expenses | (784,263) | 1,069,541 |
| Annuities and trusts payable | (56,974) | (158,580) |
| Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts | 686,902 | 2,505,592 |
| Deposits and other | (76,153) | 54,771 |
| Advances from government for student loans | 22,044 | 40,993 |
| Net cash provided by operating activities | <u>6,478,523</u> | <u>9,364,421</u> |
| Investing Activities | | |
| Purchase of property and equipment | (1,585,430) | (12,161,163) |
| Purchase of investments | (16,047,454) | (45,060,176) |
| Proceeds from sales of investments | <u>13,383,339</u> | <u>44,212,557</u> |
| Net cash used in investing activities | <u>(4,249,545)</u> | <u>(13,008,782)</u> |
| Financing Activities | | |
| Payments on bonds and notes payable | (2,147,304) | (2,068,925) |
| Contributions received restricted for long-term investment | 1,045,789 | 1,046,443 |
| Contributions received restricted for acquisition of long-lived assets | <u>166,864</u> | <u>564,919</u> |
| Net cash used in financing activities | <u>(934,651)</u> | <u>(457,563)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 1,294,327 | (4,101,924) |
| Cash and Cash Equivalents, Beginning of Year | <u>10,272,159</u> | <u>14,374,083</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 11,566,486</u> | <u>\$ 10,272,159</u> |
| Supplemental Cash Flows Information | | |
| Fixed assets in accounts payable | \$ — | \$ 191,388 |
| Cash paid for interest | 1,498,799 | 1,584,665 |

University of Mount Union

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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

Nature of Operations

University of Mount Union (University) is a private tax-exempt, nonprofit educational institution located in Alliance, Ohio. The University is affiliated with The United Methodist Church and is an institution of higher education that offers undergraduate and graduate programs designed to meet the needs of the student body. The University's primary source of revenue is from tuition and auxiliary services from students.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the University of Mount Union and its wholly owned subsidiary Raiders Corner, LLC. This subsidiary was formed in fiscal 2013 to hold title to and lease certain real property. All material interorganizational accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting cash flows, the University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of repurchase agreements.

At June 30, 2016, the University's cash accounts exceeded federally insured limits by approximately \$19,800,000.

Investments and Investment Return

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

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted 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 investment accounts, as adjusted for additions to or deductions from those accounts.

University of Mount Union

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Accounts and Loans Receivable

Accounts receivable are stated at the amount billed to the 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 signed a payment plan. Accounts that are unpaid after the due date bear interest at 1 percent per month. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Loans receivable consist primarily of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amount, net of an allowance for doubtful loans. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. 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 loans which is based upon a review of outstanding loans, historical collection information and existing conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the University has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the University in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

University of Mount Union

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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 reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Inventory Pricing

Inventories consist of books and supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

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.

Debt Premium and Unamortized Financing Costs

Financing costs and any associated premium related to the University's long-term debt is amortized over the term of the related debt.

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. With few exceptions, the University is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the educational activities, institutional support and fundraising categories based on time and effort.

Self Insurance

The University has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to approximately \$2,335,000.

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

| | 2016 | | 2015 | |
|--|---------------|----------------|----------------|----------------|
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | \$ 13,464,295 | \$ 13,464,295 | \$ 6,801,228 | \$ 6,801,228 |
| U.S. Treasury securities and government agency bonds | 3,951,706 | 4,122,339 | 4,483,751 | 4,530,909 |
| Corporate debt securities | 8,893,665 | 8,921,569 | 11,606,282 | 11,575,540 |
| Mortgage-backed securities, GSEs | 632,292 | 662,731 | 724,593 | 758,388 |
| Municipal bonds | 263,039 | 258,591 | 263,039 | 252,804 |
| Mutual funds | | | | |
| Domestic equity mutual funds | 26,855,081 | 28,635,618 | 32,180,128 | 32,630,463 |
| Fixed income mutual funds | 10,684,458 | 10,298,232 | 10,907,148 | 10,607,700 |
| International and emerging market mutual funds | 9,525,215 | 11,204,350 | 9,637,086 | 12,627,201 |
| Alternative funds | 2,712,672 | 2,676,194 | — | — |
| Common stocks | | | | |
| Industrials | 2,006,271 | 2,457,305 | 2,976,809 | 3,754,811 |
| Consumer discretionary | 692,250 | 1,111,700 | 957,059 | 1,453,481 |
| Consumer staples | 584,414 | 850,432 | 644,144 | 907,806 |
| Energy | 1,408,407 | 1,312,575 | 1,515,032 | 1,341,875 |
| Financial | 3,533,475 | 4,292,762 | 3,479,323 | 4,847,243 |
| Materials | 1,600,199 | 1,075,444 | 1,462,258 | 1,314,746 |
| Information technology | 3,317,799 | 4,768,582 | 3,866,132 | 5,567,947 |
| Health care | 1,860,425 | 2,700,032 | 2,325,501 | 3,658,375 |
| Other | 1,280,889 | 1,424,950 | 967,261 | 992,029 |
| Alternative investments | | | | |
| Limited partnerships | 2,564,565 | 5,112,436 | 3,153,668 | 6,925,740 |
| Hedge funds | 3,714,435 | 4,566,167 | 5,779,547 | 7,602,382 |
| | \$ 99,545,552 | \$ 109,916,304 | \$ 103,729,989 | \$ 118,150,668 |

Investments were held for the following purposes at June 30:

| | 2016 | | 2015 | |
|-----------|---------------|----------------|----------------|----------------|
| | Cost | Fair Value | Cost | Fair Value |
| Endowment | \$ 96,782,527 | \$ 107,165,799 | \$ 100,476,576 | \$ 114,917,196 |
| Other | 2,763,025 | 2,750,505 | 3,253,413 | 3,233,472 |
| | \$ 99,545,552 | \$ 109,916,304 | \$ 103,729,989 | \$ 118,150,668 |

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Alternative Investments

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

| June 30, 2016 | | | | |
|--------------------------------|-------------------|-----------------------------|-----------------------------|---------------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Multi-strategy hedge funds (A) | \$ 4,566,167 | None | Quarterly | 65 – 90 days |
| Limited partnerships (B) | 5,112,436 | None | Monthly | 7 days |
| June 30, 2015 | | | | |
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Multi-strategy hedge funds (A) | \$ 7,602,382 | None | Quarterly | 65 – 90 days |
| Limited partnerships (B) | 6,925,740 | None | Monthly | 7 days |

- (A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in various private investment funds that employ various long/short, macro and absolute return strategies.
- (B) This category includes an investment in a limited partnership that primarily invests and takes long positions in U.S. and foreign common stocks. Management of the fund has the ability to shift investments and strategies.

Total investment return is comprised of the following:

| | 2016 | 2015 |
|---|----------------|--------------|
| Interest and dividend income | \$ 6,771,076 | \$ 4,211,505 |
| Net realized gains (losses) on investments reported at fair value | (6,848,552) | 4,088,923 |
| Net unrealized losses on investments reported at fair value | (4,049,927) | (7,849,516) |
| | \$ (4,127,403) | \$ 450,912 |

Total investment return is reflected in the statements of activities as follows:

| | 2016 | 2015 |
|-------------------------|----------------|--------------|
| Operating income | \$ 6,050,000 | \$ 5,814,500 |
| Other nonoperating loss | (10,177,403) | (5,363,588) |
| | \$ (4,127,403) | \$ 450,912 |

University of Mount Union
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

| | 2016 | 2015 |
|---|-------------|--------------|
| Due within one year | \$ 105,337 | \$ 953,324 |
| Due in one to five years | 471,289 | 421,750 |
| Due in five to ten years | 11,690 | — |
| | 588,316 | 1,375,074 |
| Less | | |
| Allowance for uncollectible contributions | (175,000) | (325,000) |
| Unamortized discount (2.00% - 4.50%) | (31,221) | (30,074) |
| | \$ 382,095 | \$ 1,020,000 |

The University is also the beneficiary of a trust administered by a nonrelated party. The assets of this trust are included in contributions receivable on the statements of financial position of the University. Contributions receivable from this charitable trust totaled \$1,758,126 and \$1,682,417 as of June 30, 2016 and 2015, respectively.

Note 4: Beneficial Interest in Perpetual Trusts and Remainder 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 trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$5,103,701 and \$5,253,434, which represents the fair value of the trust assets at June 30, 2016 and 2015, respectively.

The University is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive a remainderment of trust assets at a future date. The present value of the expected future cash flows is \$544,898 and \$957,152 at June 30, 2016 and 2015, respectively. The discount rates used to calculate the present value were 4 percent to 8 percent.

The University was previously named the sole beneficiary of an irrevocable charitable remainder trust. In 2015, due to a restructuring of the trust agreement, the trust became revocable, and therefore no longer recordable as an asset of the University. The total amount of the derecognized trust was \$2,150,829 and recorded in the year ended June 30, 2015.

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Note 5: Property and Equipment

Property and equipment at June 30 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| Land and land improvements | \$ 21,686,227 | \$ 21,467,097 |
| Buildings | 189,309,623 | 188,680,814 |
| Equipment and vehicles | 20,557,126 | 20,060,222 |
| Construction in progress | <u>116,270</u> | <u>126,014</u> |
| | 231,669,246 | 230,334,147 |
| Less accumulated depreciation and amortization | <u>(79,166,683)</u> | <u>(73,827,896)</u> |
| | <u>\$ 152,502,563</u> | <u>\$ 156,506,251</u> |

Note 6: Line of Credit

The University has a \$1,000,000 revolving bank line of credit with no expiration date. At June 30, 2016 and 2015, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Note 7: Debt

| | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|
| 2006 Series Ohio Higher Educational Facility Revenue Bonds at 4.50% to 5.25%, which consist of \$4,145,000 serial bonds due October 1, 2007-2016, and \$11,865,000 term bonds due October 1, 2021, 2026 and 2031. The bonds were issued at a premium of \$398,159. | \$ 12,375,000 | \$ 12,860,000 |
| 2010 Series Ohio Higher Educational Facility Revenue Bonds at 2.0% to 5.125%, which consist of \$2,960,000 of serial bonds due October 1, 2011-2020, and \$8,440,000 term bonds due October 1, 2025 and 2035. | 10,185,000 | 10,500,000 |
| Note payable, unsecured, interest rate of 4.86%, payable in monthly installments of \$47,412 with a final balloon payment of \$3,770,828 due in September 2016. | 3,818,625 | 4,188,903 |
| Note payable, unsecured, interest rate of 5.00%, payable in annual installments of \$103,604 beginning on June 1, 2011, with final payment due June 2020. | 367,374 | 452,231 |
| Note payable, unsecured, interest rate of 3.00%, payable in annual installments of \$65,506 beginning on January 2, 2015, with final payment due on January 2, 2019. | 185,292 | 243,494 |
| Note payable, unsecured, interest rate of 7.47%, payable in annual installments of \$17,624 beginning on September 1, 2012, with final payment due November 2017. | 267,602 | 451,569 |
| Note payable, unsecured, interest rate of 1.40% plus the one month LIBOR rate, payable in monthly installments of \$33,333 beginning on April 1, 2012, with final payment due March 2022. | 2,300,000 | 2,700,000 |

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| | 2016 | 2015 |
|--|----------------------|----------------------|
| Note payable, unsecured, interest rate of 1.40% plus the one month LIBOR rate, payable in monthly installments of \$20,833 beginning on July 18, 2014, with final payment due June 2024. | \$ <u>2,000,000</u> | \$ <u>2,250,000</u> |
| | 31,498,893 | 33,646,197 |
| Add: Unamortized premium | <u>238,899</u> | <u>254,825</u> |
| | <u>\$ 31,737,792</u> | <u>\$ 33,901,022</u> |

In connection with the issuance of the 2006 and 2010 series of tax-exempt bonds by the state for the benefit of the University, the University has leased to the state, and the state has subleased to the University, the related buildings, land and equipment. The University does not receive rental payments under its leases to the state and is required only to make rental payments to the state at times and in amounts sufficient to pay principal and interest on the outstanding tax-exempt bonds under its leases from the state. The lease agreements expire upon repayment of all indebtedness secured by the leases.

Aggregate annual maturities of debt at June 30, 2016, are:

| | |
|------------|----------------------|
| 2017 | \$ 5,656,998 |
| 2018 | 1,755,655 |
| 2019 | 1,732,570 |
| 2020 | 1,718,670 |
| 2021 | 1,670,000 |
| Thereafter | <u>18,965,000</u> |
| | <u>\$ 31,498,893</u> |

The debt agreements contain certain financial covenants. As of June 30, 2016 and 2015, the University is in compliance with these covenants.

The University charged \$1,532,733 and \$1,578,987 to interest expense for the years ended June 30, 2016 and 2015, respectively.

Note 8: Annuities and Trusts 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, 2016 and 2015, of \$343,748 and \$367,265, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 4 percent to 8 percent.

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The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. The portion of the trust attributable to the future interest of the University is recorded in the statements of activities as restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the University's statements of financial position. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates of 2 percent to 8 percent and applicable mortality tables. The University has recorded a liability at June 30, 2016 and 2015, of \$1,387,989 and \$1,421,446, respectively.

Note 9: Derivative Financial Instruments — Interest Rate Swap Agreements

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for its variable rate debt. On February 17, 2012, the University entered into a 10-year interest rate swap agreement with the intent of reducing the impact of changes in interest rates on its Huntington National Bank variable rate debt. The agreement provides for the University to receive interest from the counterparty at the USD-SIFMA Municipal Swap Index rate and to pay interest to the counterparty at a fixed rate of 2.95 percent on a notional amount of \$2,300,000 and \$2,700,000 at June 30, 2016 and 2015, respectively. The difference between the rates, is settled monthly and is included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in other items.

The table below presents certain information regarding the University's interest rate swap agreements:

| | <u>2016</u> | <u>2015</u> |
|---|---|---|
| Fair value of liability for interest rate swap agreements | \$ <u>56,528</u> | \$ <u>14,222</u> |
| Statement of financial position location of fair value amount | Accrued expenses | Accrued expenses |
| Loss recognized in change in net assets | \$ <u>(42,306)</u> | \$ <u>(7,145)</u> |
| Location of loss recognized in change in net assets | Change in value of interest rate swap | Change in value of interest rate swap |

Note 10: Internal Borrowings

During 2010, borrowings within the University were made from the endowment fund for capital projects. The borrowings from the endowment fund totaled \$9,500,729 and \$10,532,456 at June 30, 2016 and 2015, respectively. Approximately \$4,000,000 of the internal loan is for renovations to the Engineering and Business Building. This loan is being amortized over 25 years, bears interest monthly at LIBOR plus 1.4 percent and will be repaid from unrestricted operations. The remainder of the loan is for the Wellness Center. This loan bears interest monthly at LIBOR plus 1.4 percent and will be repaid by specific contributions.

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Note 11: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Trusts and gift annuities | \$ 1,452,541 | \$ 1,488,978 |
| Funds restricted for specific purposes | 648,106 | 605,706 |
| Unexpended property and equipment funds | 394,563 | 398,286 |
| Accumulated earnings on endowment | <u>57,651,086</u> | <u>68,018,219</u> |
| | <u>\$ 60,146,296</u> | <u>\$ 70,511,189</u> |

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Investment in perpetuity, the income of which is expendable to support scholarships and operations | \$ 56,840,859 | \$ 55,454,966 |
| Annuity, life income and charitable remainder and perpetual trusts | <u>8,663,002</u> | <u>9,175,572</u> |
| | <u>\$ 65,503,861</u> | <u>\$ 64,630,538</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>2016</u> | <u>2015</u> |
|---|-------------------|---------------------|
| Purpose restrictions accomplished | | |
| Educational program expenses | \$ 183,255 | \$ 97,735 |
| Property and equipment acquired and placed into service | — | 5,087,075 |
| Time restrictions expired, passage of time | <u>—</u> | <u>435,173</u> |
| | <u>\$ 183,255</u> | <u>\$ 5,619,983</u> |

Note 12: Endowment

The University's endowment consists of approximately 500 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The University's governing body has interpreted the State of Ohio Uniform Prudent Management of Institutional Funds Act (Ohio UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by Ohio UPMIFA. In accordance with Ohio UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The endowment assets are comprised of investments, beneficial interests, assets held in trust and the internal loan. The composition of net assets by type of endowment fund at June 30, 2016 and 2015, was:

| | | 2016 | | | |
|------------------|-----------------|---------------------|-------------------------------|-------------------------------|-----------------------|
| | | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted | endowment funds | \$ <u>(283,526)</u> | \$ <u>57,651,086</u> | \$ <u>65,503,861</u> | \$ <u>122,871,421</u> |
| | | 2015 | | | |
| | | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted | endowment funds | \$ <u>—</u> | \$ <u>68,018,219</u> | \$ <u>64,630,538</u> | \$ <u>132,648,757</u> |

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Changes in endowment net assets for the years ended June 30, 2016 and 2015, were:

| | 2016 | | | |
|---|---------------------|-------------------------------|-------------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ — | \$ 68,018,219 | \$ 64,630,538 | \$ 132,648,757 |
| Investment return | | | | |
| Investment income | 6,709,973 | — | — | 6,709,973 |
| Underwater transfer | (283,526) | 283,526 | — | — |
| Net appreciation (depreciation) | <u>(659,973)</u> | <u>(10,650,659)</u> | <u>(172,466)</u> | <u>(11,483,098)</u> |
| Total investment return | 5,766,474 | (10,367,133) | (172,466) | (4,773,125) |
| Contributions | — | — | 1,045,789 | 1,045,789 |
| Appropriation of endowment assets for expenditure | <u>(6,050,000)</u> | <u>—</u> | <u>—</u> | <u>(6,050,000)</u> |
| Endowment net assets, end of year | <u>\$ (283,526)</u> | <u>\$ 57,651,086</u> | <u>\$ 65,503,861</u> | <u>\$ 122,871,421</u> |
| | | | | |
| | 2015 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ — | \$ 73,390,232 | \$ 62,786,893 | \$ 136,177,125 |
| Investment return | | | | |
| Investment income | 4,164,639 | 14,500 | — | 4,179,139 |
| Net appreciation (depreciation) | <u>1,635,361</u> | <u>(5,386,513)</u> | <u>(24,784)</u> | <u>(3,775,936)</u> |
| Total investment return | 5,800,000 | (5,372,013) | (24,784) | 403,203 |
| Contributions | — | — | 1,046,443 | 1,046,443 |
| Other transfer in | — | — | 821,986 | 821,986 |
| Appropriation of endowment assets for expenditure | <u>(5,800,000)</u> | <u>—</u> | <u>—</u> | <u>(5,800,000)</u> |
| Endowment net assets, end of year | <u>\$ —</u> | <u>\$ 68,018,219</u> | <u>\$ 64,630,538</u> | <u>\$ 132,648,757</u> |

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2016 and 2015, consisted of:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA | <u>\$ 65,503,861</u> | <u>\$ 64,630,538</u> |
| Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions | <u>\$ 57,651,086</u> | <u>\$ 68,018,219</u> |

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Ohio UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$283,526 and \$0 at June 30, 2016 and 2015, respectively. 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.

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. Under the University's policies, endowment assets are invested in a manner that is intended to produce results that shall exceed the Consumer Price Index plus 5 percent over a five-year moving period without undue exposure to investment risk. The University expects its endowment funds to provide an average rate of return of approximately 8 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 percent of its endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which expenditure is planned. In establishing this policy, the University considered the long-term expected return on its endowment and inflationary trends. 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 currently maintains investments and trust asset accounts with institutions that also have representatives serving on the Board of Trustees of the University. Total investments and trust assets held with these institutions amount to approximately \$25,170,000 and \$28,207,000 as of June 30, 2016 and 2015, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately \$188,043 and \$171,000 for 2016 and 2015, respectively.

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Note 14: Pension and Other Postretirement Benefit Plans

The University maintains a 403(b) defined-contribution plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the University's contributions to the plan. Pension expense was approximately \$1,963,000 and \$2,026,000 for 2016 and 2015, respectively.

The University has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. The University expects to contribute \$251,000 to the plan in 2017.

The University has a noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. The University expects to contribute \$59,000 to the plan in 2017.

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

| | Pension Benefits | | Other Benefits | |
|------------------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Change in benefit obligation | | | | |
| Beginning of year | \$ (1,909,598) | \$ (1,335,982) | \$ (1,591,261) | \$ (1,399,503) |
| Service cost | (76,793) | (65,237) | (41,690) | (34,818) |
| Interest cost | (77,667) | (53,375) | (68,926) | (57,078) |
| Actuarial gain (loss) | (63,355) | (138,493) | 267,193 | (147,662) |
| Special termination benefits | — | (262,512) | — | — |
| Plan amendments | — | (391,035) | — | — |
| Participant contributions | — | — | (166,555) | (162,833) |
| Benefit payments | <u>371,406</u> | <u>337,037</u> | <u>214,205</u> | <u>210,633</u> |
| End of year | (1,756,007) | (1,909,598) | (1,387,034) | (1,591,261) |
| Fair value of plan assets | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Funded status at end of year | \$ <u>(1,756,007)</u> | \$ <u>(1,909,598)</u> | \$ <u>(1,387,034)</u> | \$ <u>(1,591,261)</u> |

Liabilities recognized in accrued expenses in the statements of financial position:

| | Pension Benefits | | Other Benefits | |
|---------------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Accrued benefit liability | \$ <u>(1,756,007)</u> | \$ <u>(1,909,598)</u> | \$ <u>(1,387,034)</u> | \$ <u>(1,591,261)</u> |

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Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

| | Pension Benefits | | Other Benefits | |
|--------------------|------------------|------------|----------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | \$ 395,944 | \$ 342,290 | \$ 325,564 | \$ 621,685 |
| Prior service cost | 223,402 | 404,962 | — | — |
| | \$ 619,346 | \$ 747,252 | \$ 325,564 | \$ 621,685 |

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

| | 2016 | 2015 |
|--------------------------------|--------------|--------------|
| Projected benefit obligation | \$ 1,756,007 | \$ 1,909,598 |
| Accumulated benefit obligation | \$ 1,587,098 | \$ 1,708,932 |
| Fair value of plan assets | \$ — | \$ — |

Other significant balances and costs as of June 30 are:

| | Pension Benefits | | Other Benefits | |
|------------------------|------------------|------------|----------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Benefit costs | \$ 345,721 | \$ 126,922 | \$ 139,544 | \$ 114,999 |
| Employer contributions | 371,406 | 337,037 | 47,650 | 47,800 |
| Benefits paid | 371,406 | 337,037 | 214,205 | 210,633 |

Components of net periodic benefit cost are:

| | Pension Benefits | | Other Benefits | |
|------------------------------------|------------------|------------|----------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Service cost | \$ 76,793 | \$ 65,237 | \$ 41,690 | \$ 34,818 |
| Interest cost | 77,667 | 53,375 | 68,926 | 57,078 |
| Amortization of prior service cost | 181,560 | 3,482 | — | — |
| Recognized net actuarial loss | 9,701 | 4,828 | 28,928 | 23,103 |
| | 345,721 | 126,922 | 139,544 | 114,999 |
| Special termination benefits | — | 262,512 | — | — |
| | \$ 345,721 | \$ 389,434 | \$ 139,544 | \$ 114,999 |

The estimated net loss and prior service cost obligation for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$14,000 and \$89,000, respectively. The estimated net loss for the other defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$11,686.

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Weighted-average assumptions used to determine benefit obligations:

| | Pension Benefits | | Other Benefits | |
|-------------------------------|------------------|-------|----------------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate | 3.75% | 4.50% | 3.75% | 4.50% |
| Rate of compensation increase | 1.75 | 2.25 | N/A | N/A |
| Health care cost trend | N/A | N/A | 7.00 | 7.50 |

Weighted-average assumptions used to determine benefit costs:

| | Pension Benefits | | Other Benefits | |
|-------------------------------|------------------|-------|----------------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate | 4.50% | 4.25% | 4.50% | 4.25% |
| Rate of compensation increase | 2.25 | 2.25 | N/A | N/A |
| Health care cost rate | N/A | N/A | 7.50 | 8.00 |

For measurement purposes, a 7.50 percent and 8.00 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016 and 2015. The rate was assumed to decrease gradually to 3.50 percent by the year 2023 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The University has determined that this benefit has no effect on the measurement of plan benefit obligations and periodic benefit costs.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2016:

| | Pension Benefits | Other Benefits |
|-------------|------------------|----------------|
| 2017 | \$ 250,896 | \$ 59,404 |
| 2018 | 239,824 | 64,633 |
| 2019 | 152,098 | 69,220 |
| 2020 | 164,745 | 77,230 |
| 2021 | 168,767 | 78,538 |
| 2022 – 2026 | 661,980 | 427,573 |

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Note 15: Functional Expenses

The University's expenses on a functional basis are as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------------|----------------------|----------------------|
| Educational | | |
| Instruction | \$ 22,541,040 | \$ 21,322,773 |
| Academic support | 3,270,766 | 3,341,283 |
| Student services | 9,538,642 | 9,709,990 |
| Auxiliary enterprises | <u>11,191,300</u> | <u>11,495,736</u> |
| Total educational | 46,541,748 | 45,869,782 |
| Institutional support | 8,038,776 | 7,381,524 |
| Fundraising | <u>1,745,260</u> | <u>1,621,856</u> |
| | <u>\$ 56,325,784</u> | <u>\$ 54,873,162</u> |

Note 16: Retirement Assistance Programs

In fiscal year 2013, the University recognized special charges in connection with the separation of employees due to two voluntary Retirement Assistance Programs (RAP) announced in the fall of 2012. In connection with the charges, 14 employees retired from the University in fiscal year 2013. Under the RAP, each eligible employee who volunteered to participate will receive either an amount equal to one year of their base pay to be disbursed over the next three years or a one-time bonus that was already paid out in 2013 depending on the program selected. In 2015, seven additional employees elected participation in the program, resulting in special charges of \$850,495. The remaining unpaid accrual related to the voluntary retirement was \$545,728 and \$668,494 as of June 30, 2016 and 2015, respectively. The balance remaining at June 30, 2016 will be paid out over the next two years.

Note 17: Disclosures About Fair Value of Assets and Liabilities

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

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

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

| | 2016 | | | |
|--|-------------------|---|--|--|
| | 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) |
| Investments | | | | |
| Money market funds | \$ 13,464,295 | \$ 13,464,295 | \$ — | \$ — |
| U.S. Treasury securities and government agency bonds | 4,122,339 | 3,067,410 | 1,054,929 | — |
| Corporate debt securities | 8,921,569 | — | 8,505,851 | 415,718 |
| Mortgage-backed securities, GSEs | 662,731 | — | 662,731 | — |
| Municipal bonds | 258,591 | — | 258,591 | — |
| Mutual funds | | | | |
| Equity | 28,635,618 | 28,635,618 | — | — |
| Fixed income | 10,298,232 | 10,298,232 | — | — |
| International | 11,204,350 | 11,204,350 | — | — |
| Alternative funds | 2,676,194 | 2,676,194 | | |
| Common stocks | | | | |
| Industrials | 2,457,305 | 2,457,305 | — | — |
| Consumer discretionary | 1,111,700 | 1,111,700 | — | — |
| Consumer staples | 850,432 | 850,432 | — | — |
| Energy | 1,312,575 | 1,312,575 | — | — |
| Financial | 4,292,762 | 4,292,762 | — | — |
| Materials | 1,075,444 | 1,075,444 | — | — |
| Information technology | 4,768,582 | 4,768,582 | — | — |
| Health care | 2,700,032 | 2,700,032 | — | — |
| Other | 1,424,950 | 1,424,950 | — | — |
| Alternative investments | | | | |
| Limited partnerships | 5,112,436 | — | 5,112,436 | — |
| Hedge funds | 4,566,167 | — | 4,566,167 | — |
| Annuity and life income funds held in trust | | | | |
| Corporate debt securities | 1,148,104 | — | 1,148,104 | — |
| Money market funds | 137,923 | 137,923 | — | — |
| Mutual funds | | | | |
| Value, growth and blended fixed income | 4,931,658 | 4,931,658 | — | — |
| Beneficial interest in perpetual trusts | 5,103,701 | — | — | 5,103,701 |
| Beneficial interest in charitable remainder trusts | 544,898 | — | — | 544,898 |
| Liabilities | | | | |
| Interest rate swap agreements | 42,306 | — | 42,306 | — |

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| | 2015 | | | |
|--|--------------|--|--|--|
| | 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) |
| Investments | | | | |
| Money market funds | \$ 6,801,228 | \$ 6,801,228 | \$ — | \$ — |
| U.S. Treasury securities and government agency bonds | 4,530,909 | 2,602,868 | 1,928,041 | — |
| Corporate debt securities | 11,575,540 | — | 11,159,822 | 415,718 |
| Mortgage-backed securities, GSEs | 758,388 | — | 758,388 | — |
| Municipal bonds | 252,804 | — | 252,804 | — |
| Mutual funds | | | | |
| Equity | 32,630,463 | 32,630,463 | — | — |
| Fixed income | 10,607,700 | 10,607,700 | — | — |
| International | 12,627,201 | 12,627,201 | — | — |
| Common stocks | | | | |
| Industrials | 3,754,811 | 3,754,811 | — | — |
| Consumer discretionary | 1,453,481 | 1,453,481 | — | — |
| Consumer staples | 907,806 | 907,806 | — | — |
| Energy | 1,341,875 | 1,341,875 | — | — |
| Financial | 4,847,243 | 4,847,243 | — | — |
| Materials | 1,314,746 | 1,314,746 | — | — |
| Information technology | 5,567,947 | 5,567,947 | — | — |
| Health care | 3,658,375 | 3,658,375 | — | — |
| Other | 992,029 | 992,029 | — | — |
| Alternative investments | | | | |
| Limited partnerships | 6,925,740 | — | 6,925,740 | — |
| Hedge funds | 7,602,382 | — | 7,602,382 | — |
| Annuity and life income funds held in trust | | | | |
| Corporate debt securities | 1,297,085 | — | 1,297,085 | — |
| Money market funds | 92,505 | 92,505 | — | — |
| Mutual funds | | | | |
| Value, growth and blended fixed income | 4,953,010 | 4,953,010 | — | — |
| Beneficial interest in perpetual trusts | 5,253,434 | — | — | 5,253,434 |
| Beneficial interest in charitable remainder trusts | 957,152 | — | — | 957,152 |
| Liabilities | | | | |
| Interest rate swap agreements | 14,222 | — | 14,222 | — |

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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, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below. The University has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments and Annuity and Life Income Funds Held in Trust

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

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the University expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the University does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Level 3 Valuation Process

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

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement, which approximates the fair value of the underlying assets of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial Interest in Charitable Remainder Trusts

Fair value is estimated at the present value of the future assets expected to be received from the trusts upon dissolution. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

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Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Level 3 Reconciliation

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

| | Perpetual Trusts | Charitable Remainder Trusts | UMDF Note |
|---|-------------------------|--|----------------------|
| Balance, July 1, 2014 | \$ 5,186,284 | \$ 3,052,864 | \$ 415,718 |
| Derecognition of trust | — | (2,150,829) | — |
| Total realized and unrealized gains included in change in net assets | <u>67,150</u> | <u>55,117</u> | <u>—</u> |
| Balance, June 30, 2015 | 5,253,434 | 957,152 | 415,718 |
| Total realized and unrealized gains (losses) included in change in net assets | <u>(149,733)</u> | <u>(412,254)</u> | <u>—</u> |
| Balance, June 30, 2016 | <u>\$ 5,103,701</u> | <u>\$ 544,898</u> | <u>\$ 415,718</u> |
| Total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains related to assets still held at the reporting date | | | |
| June 30, 2016 | <u>\$ (149,733)</u> | <u>\$ (412,254)</u> | <u>\$ —</u> |
| June 30, 2015 | <u>\$ 67,150</u> | <u>\$ 55,117</u> | <u>\$ —</u> |

The unrealized gains and losses for the perpetual trusts and charitable remainder trusts are included in revenue, gains and other support.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

| | Fair Value at June 30, 2016 | Valuation Technique | Unobservable Inputs | Range |
|-----------------------------|--|--------------------------------|--|--------------|
| Perpetual trusts | \$ 5,103,701 | Discounted cash flows | Discount rates Market return rates | 3%-7% |
| Charitable remainder trusts | 544,898 | Discounted cash flows | Mortality assumptions Market return rates | 4%-8% |
| UMDF note | 415,718 | Discounted cash flows | Discount rates | 2%-5% |

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| | Fair Value at June 30, 2015 | Valuation Technique | Unobservable Inputs | Range |
|-----------------------------|--|--------------------------------|--|--------------|
| Perpetual trusts | \$ 5,253,434 | Discounted cash flows | Discount rates Market return rates | 3%-7% |
| Charitable remainder trusts | 957,152 | Discounted cash flows | Mortality assumptions Market return rates | 4%-8% |
| UMDF note | 415,718 | Discounted cash flows | Discount rates | 2%-5% |

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement:

Beneficial Interest in Remainder Trusts and Perpetual Trusts

The significant unobservable inputs used in the fair value measurement of the University's beneficial interest in remainder trusts and perpetual trusts are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

UMDF Note

The significant unobservable input used in the fair value measurement of the University's UMDF Note is the discount rate. The discount rate is the market interest rate a market participant would require for a similar type instruments. Therefore, an increase in discount rate would result in a decrease in the fair value of the note.

Note 18: 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:

Contributions

Approximately 76 percent and 74 percent of contributions receivable were from one donor and two donors at June 30, 2016 and 2015, respectively.

Approximately 17 percent and 30 percent of contribution revenue resulted from one donor in 2016 and 2015, respectively.

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Investments

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

Claims

The University is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University.

Note 19: Change in Donor Restriction

The University previously classified some contributions received from a donor as temporarily restricted. Upon further review of the trust agreements, it was determined that these contributions should be reclassified as permanently restricted net assets. In 2015, the University has therefore reclassified \$821,986 in contributions from temporarily to permanently restricted net assets.

Note 20: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were issued.