Heidelberg University

Accountants' Report and Financial Statements

June 30, 2012 and 2011

BKD LLP

CPAs & Advisors

Heidelberg University
June 30, 2012 and 2011

Contents

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CPAs & Advisors

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Heidelberg University
Tiffin, Ohio

We have audited the accompanying statements of financial position of Heidelberg University (University) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heidelberg University as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

BKD, LLP

October 25, 2012

Heidelberg University

Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 4,835,421	$ 2,060,317
Student accounts receivable, net of allowance of $997,603 and $1,072,603 in 2012 and 2011	1,140,770	1,048,096
Contributions receivable, net of allowance of $350,000 and $175,000 in 2012 and 2011	1,226,507	1,872,548
Grants receivable	209,444	260,360
Inventories	137,809	158,694
Prepaid expenses and other assets	425,882	654,661
Notes receivable, net of allowance of $113,676 in 2012 and 2011	2,370,226	2,393,075
Investments	34,950,115	39,291,524
Contributions receivable from charitable remainder trusts	998,938	1,061,471
Property and equipment	58,815,441	49,265,723
Beneficial interest in perpetual trusts	3,861,886	4,179,056
Total assets	$ 108,972,439	$ 102,245,525
Liabilities		
Accounts payable	$ 1,353,585	$ 665,718
Line of credit	237,200	392,000
Accrued liabilities	2,824,008	2,245,503
Deposits and funds held for others	157,108	158,434
Deferred income	869,409	992,186
Annuities and trusts payable	753,859	728,854
Accrued postretirement health care benefits	616,939	657,983
Debt	20,435,965	15,601,459
Advances for federal loans	1,484,943	1,495,677
Total liabilities	28,733,016	22,937,814
Net Assets		
Unrestricted	36,170,748	36,335,448
Temporarily restricted	13,072,108	13,221,700
Permanently restricted	30,996,567	29,750,563
Total net assets	80,239,423	79,307,711
Total liabilities and net assets	$ 108,972,439	$ 102,245,525

Heidelberg University

Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Income and Other Support				
Student tuition and fees	$ 26,177,188	$ —	$ —	$ 26,177,188
Student aid	(11,455,357)	—	—	(11,455,357)
Net tuition and fees	14,721,831	—	—	14,721,831
Auxiliary enterprises	8,143,566	—	—	8,143,566
Grants and contracts	1,034,064	—	—	1,034,064
Private gifts, grants and bequests	905,375	2,633,838	1,531,562	5,070,775
Investment return designated for current operations	2,060,978	83,498	—	2,144,476
Interest on loans receivable	68,882	—	—	68,882
Other	285,931	—		285,931
Change in value of split-interest agreements	—	(56,716)	(285,558)	(342,274)
	27,220,627	2,660,620	1,246,004	31,127,251
Net assets released from restrictions	831,982	(831,982)	—	0
Total income and other support	28,052,609	1,828,638	1,246,004	31,127,251
Expenses				
Instruction	9,639,673	—	—	9,639,673
Research	842,945	—	—	842,945
Academic support	1,331,290	—	—	1,331,290
Student services	4,682,225	—	—	4,682,225
Operation and maintenance of physical plant	2,929,408	—	—	2,929,408
Auxiliary enterprises	3,469,278	—	—	3,469,278
Institutional support	4,734,054	—	—	4,734,054
Total expenses	27,628,873	—	—	27,628,873
Change in Net Assets Before Other Activities	423,736	1,828,638	1,246,004	3,498,378
Other Activities				
Investment return less amounts designated for current operations	(723,977)	(1,842,689)	—	(2,566,666)
Net assets released from restriction, capital	135,541	(135,541)	—	0
	(588,436)	(1,978,230)	—	(2,566,666)
Change in Net Assets	(164,700)	(149,592)	1,246,004	931,712
Net Assets, Beginning of Year	36,335,448	13,221,700	29,750,563	79,307,711
Net Assets, End of Year	$ 36,170,748	$ 13,072,108	$ 30,996,567	$ 80,239,423

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 27,884,647	$ —	$ —	$ 27,884,647
(12,025,059)	—	—	(12,025,059)
15,859,588	—	—	15,859,588
8,265,400	—	—	8,265,400
1,011,921	—	—	1,011,921
2,205,691	965,813	592,734	3,764,238
1,487,968	86,846	—	1,574,814
64,886	—	—	64,886
391,808	—	—	391,808
860	97,018	452,635	550,513
29,288,122	1,149,677	1,045,369	31,483,168
2,106,502	(2,106,502)	—	0
31,394,624	(956,825)	1,045,369	31,483,168
9,207,607	—	—	9,207,607
1,013,073	—	—	1,013,073
1,382,928	—	—	1,382,928
4,704,221	—	—	4,704,221
3,615,838	—	—	3,615,838
3,557,321	—	—	3,557,321
4,664,859	—	—	4,664,859
28,145,847	—	—	28,145,847
3,248,777	(956,825)	1,045,369	3,337,321
2,930,266	2,605,267	—	5,535,533
5,220,675	(5,220,675)	—	0
8,150,941	(2,615,408)	—	5,535,533
11,399,718	(3,572,233)	1,045,369	8,872,854
24,935,730	16,793,933	28,705,194	70,434,857
$ 36,335,448	$ 13,221,700	$ 29,750,563	$ 79,307,711

Heidelberg University

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	$ 931,712	$ 8,872,854
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,704,127	1,566,521
Contributions restricted for long-term investment	(1,531,562)	(592,734)
Contributions restricted for capital asset purchase	(1,380,659)	(875,219)
Realized and unrealized (gains) losses on investments	1,139,802	(6,409,128)
Change in allowance for uncollectible accounts	100,000	—
Changes in		
Grants and student accounts receivable	33,242	212,905
Contributions receivable, including remainder trusts	533,574	(25,506)
Notes receivable	22,849	11,877
Prepaid expenses and other assets	228,779	(180,959)
Inventories	20,885	(23,667)
Beneficial interest in perpetual trusts	317,170	(572,897)
Accounts payable	687,867	(120,294)
Accrued liabilities	537,461	38,162
Deposits and funds held for others	(1,326)	(16,964)
Deferred income	(122,777)	15,188
Annuities and trusts payable	25,005	123,384
Advances for federal loans	(10,734)	(277,272)
Net cash provided by operating activities	3,235,415	1,746,251
Investing Activities		
Purchase of property and equipment	(11,253,845)	(2,078,888)
Purchase of investments	(11,391,671)	(11,894,856)
Sales and maturities of investments	14,593,278	12,435,056
Net cash used in investing activities	(8,052,238)	(1,538,688)
Financing Activities		
Payments on long-term debt	(1,255,494)	(1,084,604)
Proceeds from long-term debt	6,090,000	—
Net proceeds (payments) on line of credit	(154,800)	92,000
Proceeds from contributions restricted for capital asset purchase	1,380,659	875,219
Proceeds from contributions restricted for long-term investment	1,531,562	592,734
Net cash provided by financing activities	7,591,927	475,349
Net Increase in Cash and Cash Equivalents	2,775,104	682,912
Cash and Cash Equivalents, Beginning of Year	2,060,317	1,377,405
Cash and Cash Equivalents, End of Year	$ 4,835,421	$ 2,060,317
Supplemental Cash Flows Information		
Interest paid	$ 743,907	$ 550,635
Property and equipment purchases in accounts payable	811,564	176,218

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

Nature of Operations

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

Use of Estimates

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

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. The University's cash equivalents consisted primarily of overnight sweep accounts.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. At June 30, 2012, the University's interest-bearing cash accounts exceeded federally insured limits by approximately $416,000.

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

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in 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 or temporarily 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 quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Derivative Financial Instruments

The University engages in derivative activities involving equity options. The University writes call and put options on various equity securities. These derivatives are primarily used to generate trading revenue and income and to a lesser extent hedge against changes in equity prices. These derivative instruments do not qualify for hedge accounting and are accounted for at fair value. The call options are covered due to the University owning the equity securities that the options are written against. The written put options expose the University to a potential commitment to purchase the underlying equity securities at expiration of the option contract. The University's open contract written put commitments approximated $715,000 and $700,000 at June 30, 2012 and 2011, respectively. The fair value of the equity options at June 30, 2012 and 2011, was insignificant.

Inventories

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

Income Taxes

The University is exempt from income taxes under Section 501 of the U.S. Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income. The University files tax returns in the U.S. Federal jurisdiction. With few exceptions, the University is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Promises to Give

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

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The University provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives.

Student Accounts and Notes Receivable

Student 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 past due without payments for three consecutive months, and have had no response to the due diligence process are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program (Program) and are stated at their outstanding principal amounts, net of an allowance for doubtful notes. The federal government guarantees all or a significant portion of loans issued under the Program. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Loans with a delinquent balance greater than 90 days and still accruing interest amount to approximately $555,000 and $595,000 at June 30, 2012 and 2011, respectively.

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.

Deferred Revenue

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

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 $2,100,000.

Government Grants

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

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the educational, general and administrative and fund raising categories based on the estimates of time spent by University personnel and other methods.

Note 2: Contributions Receivable

	2012	2011
Due within one year	$ 583,342	$ 578,847
Due within one to five years	974,647	1,356,897
Due greater than five years	90,000	195,000
	1,647,989	2,130,744
Less:		
Allowance for uncollectible contributions	(350,000)	(175,000)
Unamortized discount (5-6%)	(71,482)	(83,196)
	$ 1,226,507	$ 1,872,548

Note 3: Investments and Investment Return

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

	2012	2011
Cash and cash equivalents	$ 2,815,923	$ 1,317,616
U.S. Government and agency securities	4,403,980	5,698,018
Real estate and land contracts	71,770	71,770
Corporate bonds	1,628,869	2,107,486
Common stocks and mutual funds		
Consumer discretionary	3,171,987	2,915,030
Consumer staples	2,124,062	2,048,576
Energy	2,671,646	3,611,882
Financials	3,113,308	4,294,124
Health care	3,321,194	3,221,841
Industrials	2,547,103	3,621,426
Information technology	5,179,000	5,480,268
Materials	1,719,488	2,150,581
Telecom services	1,380,469	1,612,068
Other	420,173	757,199
Private equity funds	381,143	383,639
Total	$ 34,950,115	$ 39,291,524

Included in the above investment totals for 2012 and 2011 are $123,733 and $133,395, respectively, relating to assets held for a charitable remainder trust, of which the University is the trustee.

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2012 and 2011:

	2012	2011
Dividends and interest (net of investment expenses of $138,410 and $140,401)	$ 717,612	$ 701,219
Net realized and unrealized gains (losses) on investments	(1,139,802)	6,409,128
Total return on investments	(422,190)	7,110,347
Investment return designated for current operations	(2,144,476)	(1,574,814)
Investment return less amounts designated for current operations	$ (2,566,666)	$ 5,535,533

Note 4: Property and Equipment

The University's property and equipment are as follows:

	Depreciable Years	2012	2011
Buildings and improvements	10 – 50	$ 68,036,466	$ 61,089,477
Furnishings and equipment	5 – 10	18,286,071	17,518,727
		86,322,537	78,608,204
Accumulated depreciation	—	(34,260,153)	(32,587,516)
		52,062,384	46,020,688
Land and land improvements	—	1,611,914	1,611,914
Construction in progress	—	5,141,143	1,633,121
		$ 58,815,441	$ 49,265,723

The University has entered into an agreement to construct a new building. The outstanding amount not yet completed on this contract at June 30, 2012, was approximately $482,000.

Note 5: Contributions Receivable From Charitable Remainder Trusts

The University is the beneficiary of two charitable remainder trusts administered by separate banks. Under the terms of the trusts, the University has the irrevocable right to receive the net assets of these trusts at the end of the trust's term. The portion of the trusts attributable to the future interest of the University is recorded in the statements of financial position as a contribution receivable. The contribution receivable is recorded at the present value of the expected future cash flows discounted from 2.5% to 3.8% and applicable mortality tables. The estimated value of the expected future cash flows is $998,938 and $1,061,471 at June 30, 2012 and 2011, respectively.

The University also administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term, which is 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 temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trust 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 beneficiary based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 7% and applicable mortality tables.

Note 6: Beneficial Interest in Perpetual Trusts

The University is the beneficiary under various perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $3,861,886 and $4,179,056, which represents the University's portion of the fair value of the trusts' assets at June 30, 2012 and 2011, respectively. The income from these trusts for 2012 and 2011 was $111,527 and $105,037, respectively.

Note 7: Line of Credit

The University has a $2,000,000 revolving bank line of credit expiring in April 2013. There were no borrowings against the line at June 30, 2012 or 2011. The line is collateralized by gross unrestricted institutional revenue of the University. Interest is at LIBOR plus 1.70%, which was 2% on June 30, 2012, and is payable monthly.

The University has a $1,000,000 revolving bank line of credit expiring in June 2016. At June 30, 2012 and 2011, there was $237,200 and $392,000, respectively, borrowed against this line. The line is unsecured. Interest is at LIBOR plus 2%, which was 2.25% on June 30, 2012, and is payable monthly.

Note 8: Interest Rate Swap Agreement

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 a portion of its Series 2008 variable rate debt. On April 1, 2009, the University entered into a five-year interest rate swap agreement that provides for the University to receive interest from the counterparty at 65% of USD-LIBOR-BBA and to pay interest to the counterparty at a fixed rate of 1.63% on the notional amount of $6,842,500 and $7,365,000 at June 30, 2012 and 2011, respectively. The difference between the variable interest rate and the fixed interest rate is settled monthly and is included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in expenses. The fair value of the swap agreement at June 30, 2012 and 2011, was insignificant.

Note 9: Debt

Debt consists of the following:

	2012	2011
Note payable, due September 2020, payable in monthly installments of principal and interest of $3,634 and one lump sum payment of $3,673 on September 1, 2020, at 4.50%, secured by property	$ 300,100	$ 329,483

	2012	2011
Note payable, due July 2017, interest free, payable in monthly installments of $5,234 through July 2017, unsecured	$ 357,682	$ 408,099
Note payable, due December 2024, payable in monthly installments of principal and interest of $1,173, at 5.50%, unsecured	126,997	133,877
2009 Sandusky County – Seneca County – City of Tiffin Port Authority Facility Revenue Bonds, variable interest rate of one month LIBOR plus 400 basis points multiplied by 65%, maturing at September 2027, payable in annual installments ranging from $205,000 to $1,415,000	13,685,000	14,730,000
Note payable, due October 2031, payable in monthly installments of principal and interest of $38,490 and one lump sum payment of $138,824 on October 26, 2031, at 4.50%, secured by property	5,966,186	—
	$ 20,435,965	$ 15,601,459

The future maturities of debt are as follows:

2013	$ 1,391,668
2014	1,452,514
2015	1,523,867
2016	1,605,094
2017	1,683,165
Thereafter	12,779,657
	$ 20,435,965

The bonds are structured as a long-term lease with the Sandusky County – Seneca County – City of Tiffin Port Authority for the projects previously financed and secured through previous leases by various bond issuances. Under the terms of the lease, the University is required to make rental payments in amounts sufficient to pay the principal, interest and any premium on the bonds whether at stated maturity upon accelerations or upon redemption. In order to secure the University's commitment to pay the trustee the lease payments, the trustee has a security interest in the various facilities. Upon the termination of the lease, ownership of the respective facilities will be transferred to the University. The bond indenture contains several covenants with which the University is in compliance at June 30, 2012.

Interest expense was $724,855 and $550,635 in 2012 and 2011, respectively.

Note 10: Annuities and Trusts Payable

The University has been the recipient of several gift annuities and charitable remainder trusts which require future payments to the donors or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2012 and 2011, of $753,859 and $728,854, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates of between 1.60% and 9.00%.

Note 11: Net Assets

Temporarily Restricted Net Assets

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

	2012	2011
Instruction	$ 1,469,164	$ 735,780
Academic support	21,080	47,850
Scholarships	904,715	620,848
Facilities	4,101,520	3,336,371
Contribution receivable from charitable remainder trust	998,938	1,061,471
Accumulated earnings of endowed funds	5,576,691	7,419,380
	$ 13,072,108	$ 13,221,700

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	2012	2011
Investment in perpetuity, the income of which is expendable to support		
Instruction	$ 2,555,497	$ 2,467,762
Academic support	839,226	839,226
Scholarships	17,858,907	16,725,638
Facilities	2,006,213	2,006,213
Any activity of the University	7,736,724	7,711,724
	$ 30,996,567	$ 29,750,563

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.

	2012	2011
Purpose restrictions accomplished		
Instruction	$ 459,507	$ 291,104
Academic support	26,770	5,835
Scholarships	42,324	83,726
Facilities	44,697	1,433,789
Other	258,684	292,048
	$ 831,982	$ 2,106,502

During 2012, the University released $135,541 of temporarily restricted net assets for capital projects. During 2011, the University determined that $5,220,675 of temporarily restricted net assets primarily for capital projects and various other physical plant were completed in 2010. These amounts released related to prior year capital projects are reflected in the statement of activities as net assets released from restrictions, capital.

Note 12: Employee Benefits

The University has a defined-contribution pension plan administered by the Teachers Insurance and Annuity Association University Retirement Equities Fund. The plan covers substantially all full-time administrative officers, faculty and certain staff. During 2012 and 2011, the plan required employer contributions ranging from 4% to 9% of employees' gross wages and individual contributions ranging from 3% to 6%. Employer benefit expense under this plan was $513,347 and $558,046 for 2012 and 2011, respectively.

Note 13: Postretirement Benefit Plan

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

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

	Pension Benefits	
	2012	2011
Change in benefit obligation		
Beginning of year	$ (657,983)	$ (657,983)
Interest cost	(37,744)	(55,807)
Actuarial gain (loss)	14,899	(14,899)
Other actuarial adjustments	22,721	35,244
Participant contributions	(56,043)	(72,639)
Benefit payments	97,211	108,101
End of year	(616,939)	(657,983)
Fair value of plan assets	—	—
Funded status at end of year	$ (616,939)	$ (657,983)

Liabilities recognized in the statements of financial position:

	Pension Benefits	
	2012	2011
Accrued postretirement health care benefits	$ (616,939)	$ (657,983)

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

	2012	2011
Net loss (gain)	$ (245,142)	$ 173,224
Prior service credit	(701,377)	(876,721)
	$ (946,519)	$ (703,497)

Other significant balances and costs as of June 30 are:

	2012	2011
Benefit cost	$ 152,499	$ 104,638
Benefits paid	97,211	108,101

Components of net periodic benefit cost are:

	2012	2011
Interest cost	$ 37,744	$ 55,807
Amortization of prior service credit	(175,344)	(175,344)
Recognized net actuarial loss (gain)	(14,899)	14,899
	$ (152,499)	$ (104,638)

The estimated net gain and prior service credit obligation for the defined-benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $16,512 and $175,344, respectively.

	2012	2011
Weighted-average assumptions used to determine benefit obligations		
Discount rate	4.00%	6.00%
Weighted-average assumptions used to determine benefit costs		
Discount rate	6.00%	6.00%

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013, the date of the most recent valuation. The rate was assumed to decrease gradually to 5% by the year 2023 and remain at that level thereafter.

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

2013	$ 55,579
2014	57,707
2015	59,571
2016	59,611
2017	56,034
2018 – 2021	230,949

Note 14: Related Parties

The University currently maintains investment and trust asset accounts with an institution that also has representatives serving on the Board of Trustees of the University. Total investments held with this institution amount to approximately $122,000 and $108,000 as of June 30, 2012 and 2011, respectively.

Note 15: Functional Expenses

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

	2012	2011
Educational		
Instructional	$ 10,961,993	$ 10,502,079
Research	902,043	1,070,926
Academic support	1,623,087	1,668,579
Student services	5,454,193	5,459,931
Auxiliary enterprises	4,418,541	4,486,591
Total educational	23,359,857	23,188,106
General and administrative	3,596,725	4,242,421
Fund raising	810,701	855,721
Total expenses	$ 27,767,283	$ 28,286,248

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:

Contributions

In 2012, approximately 41% of contribution revenue was from two donors and in 2011, approximately 16% of contribution revenue was from one donor. Approximately 45% of contributions receivable were from three donors in 2012, and 60% of contributions receivable were from five donors in 2011.

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.

Current Economic Conditions

The current protracted economic decline continues to present higher educational institutions with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, enrollment revenue, governmental support, grant revenue, etc., constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the University.

Note 17: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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

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

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, mutual funds and common stocks. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include corporate bonds and U.S. Government and agency securities. The inputs used to value the Level 2 securities include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities and bids. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include private equity funds and real estate and land contracts. Valuation of the private equity funds is based on assessment of the underlying investments considering market based information and considering the net asset value of the funds provided by the fund manager. Valuation of the real estate and land contracts is based on appraisals or market valuation reports from brokers.

Beneficial Interest in Perpetual Trusts

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

Contributions Receivable From 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 asset is classified within Level 3 of the hierarchy.

The following table presents 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, 2012 and 2011:

	2012			
		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Money market funds	$ 2,663,735	$ 2,663,735	$ —	$ —
U.S. Government and agency securities	4,403,980	—	4,403,980	—
Corporate bonds	1,628,869	—	1,628,869	—
Common stocks and mutual funds				
Consumer discretionary	3,171,987	3,171,987	—	—
Consumer staples	2,124,062	2,124,062	—	—
Energy	2,671,646	2,671,646	—	—
Financials	3,113,308	3,113,308	—	—
Health care	3,321,194	3,321,194	—	—
Industrials	2,547,103	2,547,103	—	—
Information technology	5,179,000	5,179,000	—	—
Materials	1,719,488	1,719,488	—	—
Telecom services	1,380,469	1,380,469	—	—
Other	420,173	420,173	—	—
Private equity funds	381,143	—	—	381,143
Real estate and land contracts	71,770	—	—	71,770
Beneficial interest in perpetual trusts	3,861,886	—	—	3,861,886
Contributions receivable from charitable remainder trusts	998,938	—	—	998,938

	2011			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 1,276,787	$ 1,276,787	$ —	$ —
U.S. Government and agency securities	5,698,018	—	5,698,018	—
Corporate bonds	2,107,486	—	2,107,486	—
Common stocks and mutual funds				
Consumer discretionary	2,915,030	2,915,030	—	—
Consumer staples	2,048,576	2,048,576	—	—
Energy	3,611,882	3,611,882	—	—
Financials	4,294,124	4,294,124	—	—
Health care	3,221,841	3,221,841	—	—
Industrials	3,621,426	3,621,426	—	—
Information technology	5,480,268	5,480,268	—	—
Materials	2,150,581	2,150,581	—	—
Telecom services	1,612,068	1,612,068	—	—
Other	757,199	757,199	—	—
Private equity funds	383,639	—	—	383,639
Real estate and land contracts	71,770	—	—	71,770
Beneficial interest in perpetual trusts	4,179,056	—	—	4,179,056
Contributions receivable from charitable remainder trusts	1,061,471	—	—	1,061,471

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:

	Private Equity Funds	Perpetual Trusts	Charitable Remainder Trusts	Real Estate and Land Contracts
Balance, July 1, 2010	$ 397,396	$ 3,606,159	$ 961,708	$ 71,770
Total realized and unrealized gains (losses) included in change in net assets	(13,757)	572,897	99,763	—
Balance, June 30, 2011	383,639	4,179,056	1,061,471	71,770
Total realized and unrealized losses included in change in net assets	(2,496)	(317,170)	(62,533)	—
Balance, June 30, 2012	$ 381,143	$ 3,861,886	$ 998,938	$ 71,770
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 still held at the reporting date				
June 30, 2012	$ (2,496)	$ (317,170)	$ (62,533)	$ 0
June 30, 2011	$ (13,757)	$ 572,897	$ 99,763	$ 0

The unrealized gains and losses for the private equity funds are included in investment return less amounts designated for current operations. The unrealized gains and losses for the perpetual trusts and charitable remainder trusts are included in income and other support in the statements of activities.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value. Further evaluation of the fair value of these financial assets and liabilities utilizing the methods described below did not result in a significant difference from the carrying amount, thus the carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated at the present value of the future payments expected to be received.

Notes Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities.

Line of Credit and Debt

Fair value is estimated based on the borrowing rates currently available to the University for debt with similar terms and maturities.

Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

Deposits and Funds Held for Others and Advances for Federal Loans

The carrying amount approximates fair value.

Note 18: Endowment

The University's endowment consists of approximately 340 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.

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 composition of net assets by type of endowment fund at June 30, 2012 and 2011, was:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,540,786)	$ 5,576,691	$ 28,070,097	$ 30,106,002

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,299,444)	$ 7,419,380	$ 26,476,881	$ 31,596,817

Changes in endowment net assets for the years ended June 30, 2012 and 2011, were:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (2,299,444)	$ 7,419,380	$ 26,476,881	$ 31,596,817
Investment return				
Investment income	649,568	—	—	649,568
Net appreciation (depreciation)	170,068	(1,842,689)	—	(1,672,621)
Total investment return	819,636	(1,842,689)	—	(1,023,053)
Contributions	—	—	1,593,216	1,593,216
Appropriation of endowment assets for expenditure	(2,060,978)	—	—	(2,060,978)
Endowment net assets, end of year	$ (3,540,786)	$ 5,576,691	$ 28,070,097	$ 30,106,002

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,222,789)	$ 4,814,113	$ 25,603,664	$ 26,194,988
Investment return				
Investment income	701,219	—	—	701,219
Net appreciation	2,710,094	2,605,267	—	5,315,361
Total investment return	3,411,313	2,605,267	—	6,016,580
Contributions	—	—	873,217	873,217
Appropriation of endowment assets for expenditure	(1,487,968)	—	—	(1,487,968)
Endowment net assets, end of year	$ (2,299,444)	$ 7,419,380	$ 26,476,881	$ 31,596,817

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2012 and 2011, consisted of:

	2012	2011
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 28,070,097	$ 26,476,881
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA with purpose restrictions	$ 5,576,691	$ 7,419,380

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 $(3,540,786) and $(2,299,444) at June 30, 2012 and 2011, 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. Under the University's policies, endowment assets are invested in a manner that is intended to produce results of 6% in excess of inflation while having aversion to unnecessary risk. The University expects its endowment funds to provide an average real rate of return of approximately 9% 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% 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. For 2012, the University increased the appropriations percentage to 8%. In establishing this policy, the University considered the long-term expected return on its endowment. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 19: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Supplementary Information

Heidelberg University

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Cluster/Grant Title	Federal Agency/Pass-Through Entity	Federal CFDA Number	Grant or Identifying Number	Amount
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants	Department of Education	84.007		$ 210,747
Federal Work-Study Program	Department of Education	84.033		194,899
Federal Perkins Loan Program, Federal Capital Contributions	Department of Education	84.038		2,722,225
Federal Pell Grant Program	Department of Education	84.063		1,766,898
Federal Direct Student Loans	Department of Education	84.268		10,362,650
Teacher Education Assistance for College and Higher Education Grants	Department of Education	84.379		91,500
Total Student Financial Assistance Cluster				15,348,919
Targeted Watershed Grants	Environmental Protection Agency	66.439		123,224
Great Lakes Program	Environmental Protection Agency	66.469		29,164
Total EPA				152,388
Soil Survey NRCS Chickasaw Creek	Department of Agriculture	10.902		12,256
Soil Survey NRCS Portage	Department of Agriculture	10.902		13,892
Soil Survey NRCS Maumee	Department of Agriculture	10.902	68-5E34-5-107	239
Total Department of Agriculture				26,387
Engineering Grant	National Science Foundation	47.041		65,527
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	Department of Commerce/University of Michigan	11.478		1,961
Special Oceanic and Atmospheric Project	Department of Commerce/Bowling Green State University	11.460	039-570709	8,000
Total Federal Awards				$ 15,603,182

Notes to Schedule

1. This schedule includes the federal awards activity of the University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. There were no subrecipients during the year.

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

Board of Trustees
Heidelberg University
Tiffin, Ohio

We have audited the financial statements of Heidelberg University (University) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 University's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

We noted certain matters that we reported to the University's management in a separate letter dated October 25, 2012.

This report is intended solely for the information and use of the governing body, management and others within the University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 25, 2012

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Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees
Heidelberg University
Tiffin, Ohio

Compliance

We have audited the compliance of Heidelberg University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the compliance of Heidelberg University based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Heidelberg University complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of Heidelberg University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management, others within the University, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 25, 2012

Heidelberg University

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ No

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ No

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The University's major programs were:

Cluster/Program	CFDA Number/Grant Number
Student Financial Assistance Cluster	84.007, 84.268, 84.033, 84.038, 84.063, 84.379

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

Heidelberg University

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Heidelberg University
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Reference Number	Finding	Status
	No matters are reportable.	