

# HEIDELBERG UNIVERSITY

## **Auditor's Report and Financial Statements**

June 30, 2013 and 2012

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# Heidelberg University

June 30, 2013 and 2012

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## Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees  
Heidelberg University  
Tiffin, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of Heidelberg University (University), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heidelberg University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Supplementary Information***

Our audit was 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 OMB 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.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, 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* in considering Heidelberg University's internal control over financial reporting and compliance.

**BKD, LLP**

Fort Wayne, Indiana  
October 24, 2013

**Heidelberg University**  
**Statements of Financial Position**  
**June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,221,525	\$ 4,835,421
Student accounts receivable, net of allowance of \$889,259 and \$997,603 in 2013 and 2012	1,153,573	1,140,770
Contributions receivable, net of allowance of \$300,000 and \$350,000 in 2013 and 2012	5,457,075	1,226,507
Grants receivable	226,230	209,444
Inventories	175,906	137,809
Prepaid expenses and other assets	797,142	425,882
Notes receivable, net of allowance of \$113,676 in 2013 and 2012	2,383,563	2,370,226
Investments	39,112,291	34,950,115
Contributions receivable from charitable remainder trusts	987,094	998,938
Property and equipment	59,582,948	58,815,441
Beneficial interest in perpetual trusts	<u>4,065,192</u>	<u>3,861,886</u>
Total assets	<u>\$ 119,162,539</u>	<u>\$ 108,972,439</u>
<b>Liabilities</b>		
Accounts payable	\$ 557,223	\$ 1,353,585
Line of credit	550,000	237,200
Accrued liabilities	2,648,073	2,824,008
Deposits and funds held for others	215,009	157,108
Deferred income	1,387,951	869,409
Annuities and trusts payable	823,199	753,859
Accrued postretirement health care benefits	616,939	616,939
Debt	19,248,723	20,435,965
Advances for federal loans	<u>1,476,340</u>	<u>1,484,943</u>
Total liabilities	<u>27,523,457</u>	<u>28,733,016</u>
<b>Net Assets</b>		
Unrestricted	42,802,285	36,170,748
Temporarily restricted	15,012,134	13,072,108
Permanently restricted	<u>33,824,663</u>	<u>30,996,567</u>
Total net assets	<u>91,639,082</u>	<u>80,239,423</u>
Total liabilities and net assets	<u>\$ 119,162,539</u>	<u>\$ 108,972,439</u>

# Heidelberg University

## Statements of Activities

### Years Ended June 30, 2013 and 2012

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Income and Other Support</b>				
Student tuition and fees	\$ 27,199,884	\$ —	\$ —	\$ 27,199,884
Student aid	(12,264,928)	—	—	(12,264,928)
Net tuition and fees	14,934,956	—	—	14,934,956
Auxiliary enterprises	8,001,520	—	—	8,001,520
Grants and contracts	1,080,005	—	—	1,080,005
Private gifts, grants and bequests	5,049,483	4,335,348	4,210,197	13,595,028
Investment return designated for current operations	2,366,927	97,431	—	2,464,358
Interest on loans receivable	80,171	—	—	80,171
Other	283,977	—	—	283,977
Change in value of split-interest agreements	(16,493)	(14,253)	(90,905)	(121,651)
Net assets released from restrictions	31,780,546	4,418,526	4,119,292	40,318,364
	<u>839,211</u>	<u>(839,211)</u>	<u>—</u>	<u>0</u>
Total income and other support	<u>32,619,757</u>	<u>3,579,315</u>	<u>4,119,292</u>	<u>40,318,364</u>
<b>Expenses</b>				
Instruction	8,610,496	—	—	8,610,496
Research	950,522	—	—	950,522
Academic support	1,548,152	—	—	1,548,152
Student services	5,493,138	—	—	5,493,138
Operation and maintenance of physical plant	4,675,595	—	—	4,675,595
Auxiliary enterprises	3,598,319	—	—	3,598,319
Institutional support	<u>5,020,369</u>	<u>—</u>	<u>—</u>	<u>5,020,369</u>
Total expenses	<u>29,896,591</u>	<u>—</u>	<u>—</u>	<u>29,896,591</u>
<b>Change in Net Assets Before Other Activities</b>	<u>2,723,166</u>	<u>3,579,315</u>	<u>4,119,292</u>	<u>10,421,773</u>
<b>Other Activities</b>				
Investment return less amounts designated for current operations	753,864	807,355	—	1,561,219
Net asset reclassification	705,712	585,484	(1,291,196)	0
Other nonoperating expense	(583,333)	—	—	(583,333)
Net assets released from restriction, capital	<u>3,032,128</u>	<u>(3,032,128)</u>	<u>—</u>	<u>0</u>
	<u>3,908,371</u>	<u>(1,639,289)</u>	<u>(1,291,196)</u>	<u>977,886</u>
<b>Change in Net Assets</b>	6,631,537	1,940,026	2,828,096	11,399,659
<b>Net Assets, Beginning of Year</b>	<u>36,170,748</u>	<u>13,072,108</u>	<u>30,996,567</u>	<u>80,239,423</u>
<b>Net Assets, End of Year</b>	<u>\$ 42,802,285</u>	<u>\$ 15,012,134</u>	<u>\$ 33,824,663</u>	<u>\$ 91,639,082</u>

See Notes to Financial Statements

**2012**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 26,177,188	\$ —	\$ —	\$ 26,177,188
<u>(11,455,357)</u>	<u>—</u>	<u>—</u>	<u>(11,455,357)</u>
14,721,831	—	—	14,721,831
8,143,566	—	—	8,143,566
1,034,064	—	—	1,034,064
905,375	2,633,838	1,531,562	5,070,775
2,060,978	83,498	—	2,144,476
68,882	—	—	68,882
285,931	—	—	285,931
<u>—</u>	<u>(56,716)</u>	<u>(285,558)</u>	<u>(342,274)</u>
27,220,627	2,660,620	1,246,004	31,127,251
<u>831,982</u>	<u>(831,982)</u>	<u>—</u>	<u>0</u>
<u>28,052,609</u>	<u>1,828,638</u>	<u>1,246,004</u>	<u>31,127,251</u>
9,639,673	—	—	9,639,673
842,945	—	—	842,945
1,331,290	—	—	1,331,290
4,682,225	—	—	4,682,225
2,929,408	—	—	2,929,408
3,469,278	—	—	3,469,278
<u>4,734,054</u>	<u>—</u>	<u>—</u>	<u>4,734,054</u>
<u>27,628,873</u>	<u>—</u>	<u>—</u>	<u>27,628,873</u>
<u>423,736</u>	<u>1,828,638</u>	<u>1,246,004</u>	<u>3,498,378</u>
(723,977)	(1,842,689)	—	(2,566,666)
—	—	—	0
—	—	—	0
<u>135,541</u>	<u>(135,541)</u>	<u>—</u>	<u>0</u>
<u>(588,436)</u>	<u>(1,978,230)</u>	<u>—</u>	<u>(2,566,666)</u>
(164,700)	(149,592)	1,246,004	931,712
<u>36,335,448</u>	<u>13,221,700</u>	<u>29,750,563</u>	<u>79,307,711</u>
<u>\$ 36,170,748</u>	<u>\$ 13,072,108</u>	<u>\$ 30,996,567</u>	<u>\$ 80,239,423</u>

**Heidelberg University**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Change in net assets	\$ 11,399,659	\$ 931,712
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,871,434	1,704,127
Contributions restricted for long-term investment	(4,210,197)	(1,531,562)
Contributions restricted for capital asset purchase	(2,960,445)	(1,380,659)
Realized and unrealized (gains) losses on investments	(3,314,943)	1,139,802
Change in allowance for uncollectible accounts	(158,344)	100,000
Changes in		
Grants and student accounts receivable	78,755	33,242
Contributions receivable, including remainder trusts	(4,168,724)	533,574
Notes receivable	(13,337)	22,849
Prepaid expenses and other assets	(371,260)	228,779
Inventories	(38,097)	20,885
Beneficial interest in perpetual trusts	(203,306)	317,170
Accounts payable	(141,728)	687,867
Accrued liabilities	(175,935)	537,461
Deposits and funds held for others	57,901	(1,326)
Deferred income	518,542	(122,777)
Annuities and trusts payable	69,340	25,005
Advances for federal loans	(8,603)	(10,734)
	<u>(1,769,288)</u>	<u>3,235,415</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(3,293,575)	(11,253,845)
Purchase of investments	(14,573,102)	(11,391,671)
Sales and maturities of investments	13,725,869	14,593,278
	<u>(4,140,808)</u>	<u>(8,052,238)</u>
<b>Financing Activities</b>		
Payments on long-term debt	(1,187,242)	(1,255,494)
Proceeds from long-term debt	—	6,090,000
Net proceeds (payments) on line of credit	312,800	(154,800)
Proceeds from contributions restricted for capital asset purchase	2,960,445	1,380,659
Proceeds from contributions restricted for long-term investment	4,210,197	1,531,562
	<u>6,296,200</u>	<u>7,591,927</u>
<b>Net Increase in Cash and Cash Equivalents</b>	386,104	2,775,104
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,835,421</u>	<u>2,060,317</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 5,221,525</u>	<u>\$ 4,835,421</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 651,294	\$ 743,907
Property and equipment purchases in accounts payable	156,930	811,564
Debt refinanced	18,561,527	—



# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

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

##### ***Nature of Operations***

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

##### ***Use of Estimates***

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

##### ***Cash and Cash Equivalents***

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. The University's cash equivalents consisted primarily of overnight sweep accounts. At June 30, 2013, the University's cash accounts exceeded federally insured limits by approximately \$5,127,000.

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 the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

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.

# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

#### ***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 \$192,000 and \$715,000 at June 30, 2013 and 2012, respectively. The fair value of the equity options at June 30, 2013 and 2012, 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 2010.

#### ***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.

# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

#### ***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 \$594,000 and \$555,000 at June 30, 2013 and 2012, 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.

**Heidelberg University**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**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 to \$75,000 each.

**Government Grants**

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

**Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the 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**

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 2,817,533	\$ 583,342
Due within one to five years	2,966,404	974,647
Due greater than five years	<u>170,000</u>	<u>90,000</u>
	5,953,937	1,647,989
Less:		
Allowance for uncollectible contributions	(300,000)	(350,000)
Unamortized discount (5-6%)	<u>(196,862)</u>	<u>(71,482)</u>
	<u>\$ 5,457,075</u>	<u>\$ 1,226,507</u>

**Heidelberg University**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**Note 3: Investments and Investment Return**

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 3,281,274	\$ 2,815,923
U.S. Government and agency securities	4,524,780	4,403,980
Real estate and land contracts	71,770	71,770
Corporate bonds	1,673,549	1,628,869
Common stocks and mutual funds		
Consumer discretionary	3,574,802	3,171,987
Consumer staples	2,472,230	2,124,062
Energy	2,482,553	2,671,646
Financials	4,729,774	3,113,308
Health care	3,794,337	3,321,194
Industrials	3,008,090	2,547,103
Information technology	5,805,519	5,179,000
Materials	1,592,678	1,719,488
Telecom services	1,256,933	1,380,469
Other	549,380	420,173
Private equity funds	<u>294,622</u>	<u>381,143</u>
Total	<u>\$ 39,112,291</u>	<u>\$ 34,950,115</u>

Included in the above investment totals for 2013 and 2012 are \$124,849 and \$123,733, 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Dividends and interest (net of investment expenses of \$124,813 and \$138,410)	\$ 710,634	\$ 717,612
Net realized and unrealized gains (losses) on investments	<u>3,314,943</u>	<u>(1,139,802)</u>
Total return on investments	4,025,577	(422,190)
Investment return designated for current operations	<u>(2,464,358)</u>	<u>(2,144,476)</u>
Investment return less amounts designated for current operations	<u>\$ 1,561,219</u>	<u>\$ (2,566,666)</u>

**Heidelberg University**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**Note 4: Property and Equipment**

The University's property and equipment are as follows:

	<b>Depreciable Years</b>	<b>2013</b>	<b>2012</b>
Buildings and improvements	10 – 50	\$ 75,121,739	\$ 68,036,466
Furnishings and equipment	5 – 10	<u>18,642,047</u>	<u>18,286,071</u>
		93,763,786	86,322,537
Accumulated depreciation		<u>(36,070,302)</u>	<u>(34,260,153)</u>
		57,693,484	52,062,384
Land and land improvements		1,889,464	1,611,914
Construction in progress		<u>—</u>	<u>5,141,143</u>
		<u>\$ 59,582,948</u>	<u>\$ 58,815,441</u>

**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 \$987,094 and \$998,938 at June 30, 2013 and 2012, 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 \$4,065,192 and \$3,861,886, which represents the University's portion of the fair value of the trusts' assets at June 30, 2013 and 2012, respectively. The income from these trusts for 2013 and 2012 was \$112,750 and \$111,527, respectively.

# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

#### Note 7: Line of Credit

The University has a \$4,000,000 revolving bank line of credit expiring in April 2014. There were no borrowings against the line at June 30, 2013 or 2012. The line is collateralized by gross unrestricted institutional revenue of the University. Interest is at LIBOR plus 1.35%, which was 1.55% on June 30, 2013, and is payable monthly.

The University has a \$1,000,000 revolving bank line of credit expiring in June 2016. At June 30, 2013 and 2012, there was \$550,000 and \$237,200, respectively, borrowed against this line. The line is unsecured. Interest is at LIBOR plus 1.7%, which was 1.9% on June 30, 2013, 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. In conjunction with the refinancing of the 2008 Series Bonds and issuance of the 2013 Bonds, the University entered into a new ten-year interest rate swap agreement that provides for the University to receive interest from the counterparty at one month USD-LIBOR-BBA and to pay interest to the counterparty at a fixed rate of 1.75% on the notional amount of \$18,561,527 at June 30, 2013. 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, 2013, was immaterial.

#### Note 9: Debt

Debt consists of the following:

	2013	2012
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	\$ 269,368	\$ 300,100
Note payable, due July 2017, interest free, payable in monthly installments of \$5,234 through July 2017, unsecured	298,099	357,682
Note payable, due December 2024, payable in monthly installments of principal and interest of \$1,173, at 5.50%, unsecured	119,729	126,997
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. Refinanced during 2013	—	13,685,000

**Heidelberg University**  
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	<b>2013</b>	<b>2012</b>
2013 Series County of Seneca, Ohio Economic Development Lease Revenue Bond, variable interest rate of one month LIBOR plus 242 basis points multiplied by 65.01%, maturing in September 2031, payable in semi-annual installments, \$198,000 to \$747,000	\$ 18,561,527	\$ —
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%. Refinanced during 2013	<u>—</u>	<u>5,966,186</u>
	<u>\$ 19,248,723</u>	<u>\$ 20,435,965</u>

The future maturities of debt are as follows:

2014	\$ 968,822
2015	1,011,732
2016	1,049,734
2017	1,090,833
2018	1,133,034
Thereafter	<u>13,994,568</u>
	<u>\$ 19,248,723</u>

The bonds are structured as a long-term lease with the County of Seneca. 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, 2013.

Interest expense was \$704,682 and \$724,855 in 2013 and 2012, 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, 2013 and 2012, of \$823,199 and \$753,859, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates of between 1.00% and 9.00%.



**Heidelberg University**  
**Notes to Financial Statements**  
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**Note 11: Net Assets**

***Temporarily Restricted Net Assets***

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

	<u>2013</u>	<u>2012</u>
Instruction	\$ 1,827,131	\$ 1,469,164
Academic support	5,122	21,080
Scholarships	899,749	904,715
Facilities	4,323,508	4,101,520
Contribution receivable from charitable remainder trust	987,094	998,938
Accumulated earnings of endowed funds	<u>6,969,530</u>	<u>5,576,691</u>
	<u>\$ 15,012,134</u>	<u>\$ 13,072,108</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets are restricted to:

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income of which is expendable to support		
Instruction	\$ 4,736,519	\$ 2,555,497
Academic support	839,226	839,226
Scholarships	18,571,357	17,858,907
Facilities	2,006,213	2,006,213
Any activity of the University	<u>7,671,348</u>	<u>7,736,724</u>
	<u>\$ 33,824,663</u>	<u>\$ 30,996,567</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>2013</u>	<u>2012</u>
Purpose restrictions accomplished		
Instruction	\$ 388,494	\$ 459,507
Academic support	12,548	26,770
Scholarships	53,952	42,324
Facilities	—	44,697
Other	<u>384,217</u>	<u>258,684</u>
	<u>\$ 839,211</u>	<u>\$ 831,982</u>

During 2013 and 2012, the University released \$3,032,128 and \$135,541, respectively, of temporarily restricted net assets for capital projects.

**Heidelberg University**  
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**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 2013 and 2012, the plan required employer contributions ranging from 4% to 6% of employees' gross wages and individual contributions ranging from 3% to 6%. Employer benefit expense under this plan was \$534,895 and \$513,347 for 2013 and 2012, 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:

	<b>Pension Benefits</b>	
	<b>2013</b>	<b>2012</b>
Change in benefit obligation		
Beginning of year	\$ (616,939)	\$ (657,983)
Interest cost	(37,744)	(37,744)
Actuarial gain (loss)	14,899	14,899
Other actuarial adjustments	(10,155)	22,721
Participant contributions	(65,000)	(56,043)
Benefit payments	98,000	97,211
End of year	(616,939)	(616,939)
Fair value of plan assets	—	—
Funded status at end of year	\$ (616,939)	\$ (616,939)

**Heidelberg University**  
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Liabilities recognized in the statements of financial position:

	<b>Pension Benefits</b>	
	<b>2013</b>	<b>2012</b>
Accrued postretirement health care benefits	\$ <u>(616,939)</u>	\$ <u>(616,939)</u>

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

	<b>2013</b>	<b>2012</b>
Net gain	\$ (230,243)	\$ (245,142)
Prior service credit	<u>(526,000)</u>	<u>(701,377)</u>
	<u>\$ (756,243)</u>	<u>\$ (946,519)</u>

Other significant balances and costs as of June 30 are:

	<b>2013</b>	<b>2012</b>
Benefit cost	\$ 152,499	\$ 152,499
Benefits paid	98,000	97,211

Components of net periodic benefit cost are:

	<b>2013</b>	<b>2012</b>
Interest cost	\$ 37,744	\$ 37,744
Amortization of prior service credit	(175,344)	(175,344)
Recognized net actuarial gain	<u>(14,899)</u>	<u>(14,899)</u>
	<u>\$ (152,499)</u>	<u>\$ (152,499)</u>

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 \$16,512, respectively.

	<b>2013</b>	<b>2012</b>
Weighted-average assumptions used to determine benefit obligations		
Discount rate	4.00%	4.00%
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.

# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

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:

2014	\$	56,000
2015		58,000
2016		60,000
2017		61,000
2018		56,000
2019 – 2021		231,000

#### 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 \$88,000 and \$122,000 as of June 30, 2013 and 2012, respectively.

#### Note 15: Functional Expenses

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

	2013	2012
Educational		
Instructional	\$ 10,540,608	\$ 10,961,993
Research	1,036,784	902,043
Academic support	1,974,070	1,623,087
Student services	6,619,935	5,454,193
Auxiliary enterprises	4,983,902	4,418,541
Total educational	25,155,299	23,359,857
General and administrative	4,055,306	3,596,725
Fund raising	810,999	810,701
Total expenses	\$ 30,021,604	\$ 27,767,283

#### 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 2013, approximately 21% of contribution revenue was from one donor and in 2012, approximately 41% of contribution revenue was from two donors.

# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

#### **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.

#### **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

#### **Recurring Measurements**

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, 2013 and 2012:

	<b>2013</b>			
	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments				
Money market funds	\$ 3,074,987	\$ 3,074,987	\$ —	\$ —
U.S. Government and agency securities	4,524,780	—	4,524,780	—
Corporate bonds	1,673,549	—	1,673,549	—

**Heidelberg University**  
**Notes to Financial Statements**  
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		<b>2013</b>			
		<b>Fair Value Measurements Using</b>			
		<b>Quoted Prices</b>		<b>Significant</b>	<b>Significant</b>
		<b>in Active</b>	<b>Markets for</b>	<b>Other</b>	<b>Unobservable</b>
		<b>Identical</b>	<b>Assets</b>	<b>Observable</b>	<b>Inputs</b>
		<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Fair Value</b>	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Common stocks and mutual funds					
Consumer discretionary	\$ 3,574,802	\$ 3,574,802	\$ —	\$ —	
Consumer staples	2,472,230	2,472,230	—	—	
Energy	2,482,553	2,482,553	—	—	
Financials	4,729,774	4,729,774	—	—	
Health care	3,794,337	3,794,337	—	—	
Industrials	3,008,090	3,008,090	—	—	
Information technology	5,805,519	5,805,519	—	—	
Materials	1,592,678	1,592,678	—	—	
Telecom services	1,256,933	1,256,933	—	—	
Other	549,382	549,382	—	—	
Private equity funds	294,622	—	—	—	294,622
Real estate and land contracts	71,770	—	—	—	71,770
Beneficial interest in perpetual trusts	4,065,192	—	—	—	4,065,192
Contributions receivable from charitable remainder trusts	987,094	—	—	—	987,094

		<b>2012</b>			
		<b>Fair Value Measurements Using</b>			
		<b>Quoted Prices</b>		<b>Significant</b>	<b>Significant</b>
		<b>in Active</b>	<b>Markets for</b>	<b>Other</b>	<b>Unobservable</b>
		<b>Identical</b>	<b>Assets</b>	<b>Observable</b>	<b>Inputs</b>
		<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Fair Value</b>	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
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	—	

**Heidelberg University**  
**Notes to Financial Statements**  
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	2012			
	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)	Fair Value
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

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. 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.

# Heidelberg University

## Notes to Financial Statements

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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 Organization 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.

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

#### ***Beneficial Interest in Perpetual Trusts***

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

#### ***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.

#### ***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:

	<b>Private Equity Funds</b>	<b>Perpetual Trusts</b>	<b>Charitable Remainder Trusts</b>	<b>Real Estate and Land Contracts</b>
Balance, July 1, 2011	\$ 383,639	\$ 4,179,056	\$ 1,061,471	\$ 71,770
Total realized and unrealized losses included in change in net assets	<u>(2,496)</u>	<u>(317,170)</u>	<u>(62,533)</u>	<u>—</u>
Balance, June 30, 2012	381,143	3,861,886	998,938	71,770
Total realized and unrealized losses included in change in net assets	<u>(86,521)</u>	<u>203,306</u>	<u>(11,844)</u>	<u>—</u>
Balance, June 30, 2013	<u>\$ 294,622</u>	<u>\$ 4,065,192</u>	<u>\$ 987,094</u>	<u>\$ 71,770</u>



**Heidelberg University**  
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	<b>Private Equity Funds</b>	<b>Perpetual Trusts</b>	<b>Charitable Remainder Trusts</b>	<b>Real Estate and Land Contracts</b>
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, 2013	\$ <u>(86,521)</u>	\$ <u>203,306</u>	\$ <u>(11,844)</u>	\$ <u>0</u>
June 30, 2012	\$ <u>(2,496)</u>	\$ <u>(317,170)</u>	\$ <u>(62,533)</u>	\$ <u>0</u>

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.

**Heidelberg University**  
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*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, 2013 and 2012, was:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ <u>(2,340,659)</u>	\$ <u>6,969,530</u>	\$ <u>29,216,364</u>	\$ <u>33,845,235</u>

**Heidelberg University**  
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	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ <u>(3,540,786)</u>	\$ <u>5,576,691</u>	\$ <u>28,070,097</u>	\$ <u>30,106,002</u>

Changes in endowment net assets for the years ended June 30, 2013 and 2012, were:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (3,540,786)	\$ 5,576,691	\$ 28,070,097	\$ 30,106,002
Reclassification of net assets	705,712	585,484	(1,291,196)	—
Investment return				
Investment income	656,067	—	—	656,067
Net appreciation	<u>2,205,275</u>	<u>807,355</u>	<u>—</u>	<u>3,012,630</u>
Total investment return	2,861,342	807,355	—	3,668,697
Contributions	—	—	2,437,463	2,437,463
Appropriation of endowment assets for expenditure	<u>(2,366,927)</u>	<u>—</u>	<u>—</u>	<u>(2,366,927)</u>
Endowment net assets, end of year	\$ <u>(2,340,659)</u>	\$ <u>6,969,530</u>	\$ <u>29,216,364</u>	\$ <u>33,845,235</u>

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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)	<u>170,068</u>	<u>(1,842,689)</u>	<u>—</u>	<u>(1,672,621)</u>
Total investment return	819,636	(1,842,689)	—	(1,023,053)

**Heidelberg University**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	\$ —	\$ —	\$ 1,593,216	\$ 1,593,216
Appropriation of endowment assets for expenditure	<u>(2,060,978)</u>	<u>—</u>	<u>—</u>	<u>(2,060,978)</u>
Endowment net assets, end of year	<u>\$ (3,540,786)</u>	<u>\$ 5,576,691</u>	<u>\$ 28,070,097</u>	<u>\$ 30,106,002</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2013 and 2012, consisted of:

	2013	2012
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	<u>\$ 29,216,364</u>	<u>\$ 28,070,097</u>
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA with purpose restrictions	<u>\$ 6,969,530</u>	<u>\$ 5,576,691</u>

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 \$(2,340,659) and \$(3,540,786) at June 30, 2013 and 2012, 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.

# Heidelberg University

## Notes to Financial Statements

### June 30, 2013 and 2012

The University has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's average fair value calculated on a quarterly basis using the most recent 12-quarter rolling average. 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 Auditor's 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, 2013**

Cluster/Grant Title	Federal Agency/Pass- Through Entity	Federal CFDA Number	Amount
<b>Student Financial Assistance Cluster</b>			
Federal Supplemental Educational Opportunity Grants	Department of Education	84.007	\$ 210,747
Federal Work-Study Program	Department of Education	84.033	211,163
Federal Perkins Loan Program, Federal Capital Contributions	Department of Education	84.038	2,681,927
Federal Pell Grant Program	Department of Education	84.063	1,910,773
Federal Direct Student Loans	Department of Education	84.268	9,997,917
Teacher Education Assistance for College and Higher Education Grants	Department of Education	84.379	<u>88,000</u>
Total Student Financial Assistance Cluster			<u>15,100,527</u>
<b>Research and Development Cluster</b>			
Targeted Watershed Grants	Environmental Protection Agency	66.439	210,194
Great Lakes Program	Environmental Protection Agency	66.469	22,275
Great Lakes Program	Environmental Protection Agency/Ohio Environmental Protection Agency	66.469	<u>31,442</u>
Total EPA			263,911
Evaluation of BMPs for reducing phosphorus loads to Lake Erie	Department of Health and Human Services/Wayne State University	93.000	12,000
Engineering Grant	National Science Foundation	47.041	58,857
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	Department of Commerce/ University of Michigan	11.478	<u>5,729</u>
Total Research and Development Cluster			<u>340,497</u>
Total Federal Awards			<u>\$ 15,441,024</u>

**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.

**Independent Auditor's 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Heidelberg University (University), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2013.

***Internal Control Over Financial Reporting***

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the University's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

***Compliance***

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*.

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

*BKD, LLP*

Fort Wayne, Indiana  
October 24, 2013

## **Independent Auditor's 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

### **Report on Compliance for Each Major Federal Program**

We have audited the compliance of Heidelberg University (University) with the types of compliance requirements described in the 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, 2013. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Heidelberg University's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the University's compliance with those requirements.

#### ***Opinion on Each Major Federal Program***

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, 2013.

## Report on Internal Control Over Compliance

The management of Heidelberg University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

Fort Wayne, Indiana  
December 17, 2013



**Heidelberg University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2013**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Heidelberg University**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2013**

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
No matters are reportable.		