



HEIDELBERG UNIVERSITY

Independent Auditor's Report and Financial Statements

June 30, 2015 and 2014

Heidelberg University

June 30, 2015 and 2014

Contents

Independent Auditor's Report	1
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Financial Statements

Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Auditor's Report

Board of Trustees
Heidelberg University
Tiffin, Ohio

We have audited the accompanying financial statements of Heidelberg University (University), which comprise the statements of financial position as of June 30, 2015 and 2014, 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. 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 University'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 University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
October 16, 2015

Heidelberg University
Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 4,271,241	\$ 3,087,328
Student accounts receivable, net of allowance of \$1,272,875 and \$1,013,162 in 2015 and 2014	1,730,168	1,861,139
Contributions receivable, net of allowance of \$258,000 and \$350,000 in 2015 and 2014	4,744,265	6,513,647
Grants receivable	500,683	333,733
Inventories	119,253	142,660
Prepaid expenses and other assets	434,182	432,949
Notes receivable, net of allowance of \$113,676 in 2015 and 2014	2,226,596	2,356,512
Investments	50,666,423	48,497,608
Contributions receivable from charitable remainder trusts	417,990	982,623
Property and equipment	63,146,140	64,020,637
Beneficial interest in perpetual trusts	4,405,913	4,506,150
	<u>\$ 132,662,854</u>	<u>\$ 132,734,986</u>
Liabilities		
Accounts payable	\$ 567,776	\$ 847,113
Line of credit	1,310,000	345,000
Accrued liabilities	2,620,127	5,036,529
Deposits and funds held for others	181,951	165,061
Deferred income	1,246,623	1,183,812
Annuities and trusts payable	852,901	910,009
Accrued postretirement health care benefits	468,885	616,939
Debt and capital lease obligations	18,412,531	18,279,900
Advances for federal loans	1,466,346	1,470,646
Total liabilities	<u>27,127,140</u>	<u>28,855,009</u>
Net Assets		
Unrestricted	46,478,114	43,696,392
Temporarily restricted	16,215,406	19,463,615
Permanently restricted	42,842,194	40,719,970
Total net assets	<u>105,535,714</u>	<u>103,879,977</u>
Total liabilities and net assets	<u>\$ 132,662,854</u>	<u>\$ 132,734,986</u>

Heidelberg University
Statements of Activities
Years Ended June 30, 2015 and 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Student tuition and fees	\$ 30,741,102	\$ -	\$ -	\$ 30,741,102
Student aid	(14,538,361)	-	-	(14,538,361)
Net tuition and fees	16,202,741	-	-	16,202,741
Auxiliary enterprises	8,594,177	-	-	8,594,177
Grants and contracts	1,034,553	-	-	1,034,553
Private gifts, grants and bequests	438,361	3,396,722	2,237,555	6,072,638
Investment return designated for current operations	1,709,761	151,614	-	1,861,375
Interest on loans receivable	128,580	-	-	128,580
Other	501,028	-	-	501,028
Change in value of split-interest agreements	-	(552,123)	(55,639)	(607,762)
	28,609,201	2,996,213	2,181,916	33,787,330
Net assets released from restrictions, operating	726,866	(726,866)	-	-
Total revenues, gains and other support	29,336,067	2,269,347	2,181,916	33,787,330
Expenses				
Instruction	9,840,104	-	-	9,840,104
Research	966,789	-	-	966,789
Academic support	1,983,530	-	-	1,983,530
Student services	5,849,456	-	-	5,849,456
Operation and maintenance of physical plant	4,522,922	-	-	4,522,922
Auxiliary enterprises	3,782,792	-	-	3,782,792
Institutional support	5,011,761	-	-	5,011,761
Total expenses	31,957,354	-	-	31,957,354
Change in Net Assets Before Other Activities	(2,621,287)	2,269,347	2,181,916	1,829,976
Other Activities				
Investment return less amounts designated for current operations	381,674	(496,221)	(59,692)	(174,239)
Change in donor restriction	-	-	-	-
Net assets released from restriction, capital	5,021,335	(5,021,335)	-	-
	5,403,009	(5,517,556)	(59,692)	(174,239)
Change in Net Assets	2,781,722	(3,248,209)	2,122,224	1,655,737
Net Assets, Beginning of Year	43,696,392	19,463,615	40,719,970	103,879,977
Net Assets, End of Year	\$ 46,478,114	\$ 16,215,406	\$ 42,842,194	\$ 105,535,714

2014

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 30,159,558	\$ -	\$ -	\$ 30,159,558
(13,432,696)	-	-	(13,432,696)
16,726,862	-	-	16,726,862
8,424,019	-	-	8,424,019
1,129,983	-	-	1,129,983
1,058,113	4,403,146	4,353,410	9,814,669
2,087,277	108,446	-	2,195,723
69,101	-	-	69,101
195,304	-	-	195,304
-	(47,974)	398,070	350,096
29,690,659	4,463,618	4,751,480	38,905,757
930,901	(930,901)	-	-
30,621,560	3,532,717	4,751,480	38,905,757
9,995,144	-	-	9,995,144
566,863	-	-	566,863
1,481,951	-	-	1,481,951
5,541,997	-	-	5,541,997
4,590,864	-	-	4,590,864
3,972,824	-	-	3,972,824
4,995,416	-	-	4,995,416
31,145,059	-	-	31,145,059
(523,499)	3,532,717	4,751,480	7,760,698
209,314	3,127,056	1,143,827	4,480,197
(1,000,000)	-	1,000,000	-
2,208,292	(2,208,292)	-	-
1,417,606	918,764	2,143,827	4,480,197
894,107	4,451,481	6,895,307	12,240,895
42,802,285	15,012,134	33,824,663	91,639,082
\$ 43,696,392	\$ 19,463,615	\$ 40,719,970	\$ 103,879,977

Heidelberg University
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Change in net assets	\$ 1,655,737	\$ 12,240,895
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	2,090,737	1,973,383
Contributions restricted for long-term investment	(2,237,555)	(4,353,410)
Contributions restricted for capital asset purchase	(2,005,513)	(1,942,248)
Realized and unrealized gains on investments	(662,848)	(5,895,343)
Change in allowance for uncollectible accounts	167,713	173,903
Changes in		
Grants and student accounts receivable	(295,692)	(938,972)
Contributions receivable, including remainder trusts	2,426,015	(1,102,101)
Notes receivable	129,916	27,051
Prepaid expenses and other assets	(1,233)	364,193
Inventories	23,407	33,246
Beneficial interest in perpetual trusts	100,237	(440,958)
Accounts payable	89,993	289,890
Accrued liabilities	(2,564,456)	2,388,456
Deposits and funds held for others	16,890	(49,948)
Deferred income	62,811	(204,139)
Annuities and trusts payable	(57,108)	86,810
Advances for federal loans	(4,300)	(5,694)
Net cash (used in) provided by operating activities	<u>(1,065,249)</u>	<u>2,645,014</u>
Investing Activities		
Purchase of property and equipment	(281,176)	(6,411,072)
Purchase of investments	(15,902,583)	(12,454,991)
Sales and maturities of investments	14,396,616	8,965,017
Net cash used in investing activities	<u>(1,787,143)</u>	<u>(9,901,046)</u>
Financing Activities		
Payments on long-term debt and capital lease obligations	(1,171,763)	(968,823)
Net proceeds (payments) on line of credit	965,000	(205,000)
Proceeds from contributions restricted for capital asset purchase	2,005,513	1,942,248
Proceeds from contributions restricted for long-term investment	2,237,555	4,353,410
Net cash provided by financing activities	<u>4,036,305</u>	<u>5,121,835</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,183,913	(2,134,197)
Cash and Cash Equivalents, Beginning of Year	<u>3,087,328</u>	<u>5,221,525</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,271,241</u>	<u>\$ 3,087,328</u>
Supplemental Cash Flows Information		
Interest paid	\$ 646,737	\$ 624,373
Property and equipment purchases in accounts payable	35,539	404,869
Capital lease obligation incurred for purchase of equipment	1,304,394	-

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015, the University's cash accounts exceeded federally insured limits by approximately \$3,273,000.

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, 2015 and 2014

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 \$410,000 and \$171,000 at June 30, 2015 and 2014, respectively. The fair value of the equity options at June 30, 2015 and 2014, 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 2012.

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. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. 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, 2015 and 2014

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 \$644,000 and \$620,000 at June 30, 2015 and 2014, 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, 2015 and 2014

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 \$100,000 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>2015</u>	<u>2014</u>
Due within one year	\$ 2,648,736	\$ 4,079,863
Due within one to five years	2,455,779	2,969,114
Due greater than five years	<u>53,355</u>	<u>23,355</u>
	5,157,870	7,072,332
Less:		
Allowance for uncollectible contributions	(258,000)	(350,000)
Unamortized discount (5-6%)	<u>(155,605)</u>	<u>(208,685)</u>
	<u>\$ 4,744,265</u>	<u>\$ 6,513,647</u>

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

Note 3: Investments and Investment Return

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

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 5,057,778	\$ 4,312,192
U.S. Government and agency securities	5,225,301	5,178,851
Real estate and land contracts	71,770	71,770
Corporate bonds	1,932,646	1,915,466
Common stocks and mutual funds		
Consumer discretionary	5,377,962	4,764,804
Consumer staples	2,761,871	2,817,168
Energy	2,369,961	3,338,355
Financials	6,279,799	5,385,526
Health care	6,169,173	4,656,059
Industrials	3,695,673	3,719,837
Information technology	8,627,833	7,781,564
Materials	1,352,177	2,025,006
Telecom services	1,228,253	1,457,567
Other	297,863	835,755
Private equity funds	<u>218,363</u>	<u>237,688</u>
Total	<u>\$ 50,666,423</u>	<u>\$ 48,497,608</u>

Included in the above investment totals for 2015 and 2014 are \$0 and \$128,826, 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Dividends and interest (net of investment expenses of \$159,661 and \$151,322)	\$ 1,024,288	\$ 780,577
Net realized and unrealized gains on investments	<u>662,848</u>	<u>5,895,343</u>
Total return on investments	1,687,136	6,675,920
Investment return designated for current operations	<u>(1,861,375)</u>	<u>(2,195,723)</u>
Investment return less amounts designated for current operations	<u>\$ (174,239)</u>	<u>\$ 4,480,197</u>

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

Note 4: Property and Equipment

The University's property and equipment are as follows:

	Depreciable Years	2015	2014
Buildings and improvements	10 – 50	\$ 81,782,298	\$ 75,354,560
Furnishings and equipment	5 – 10	<u>19,154,140</u>	<u>19,071,512</u>
		100,936,438	94,426,072
Accumulated depreciation		<u>(39,694,862)</u>	<u>(37,837,659)</u>
		61,241,576	56,588,413
Land and land improvements		1,904,564	1,904,564
Construction in progress		<u>—</u>	<u>5,527,660</u>
		<u>\$ 63,146,140</u>	<u>\$ 64,020,637</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 3.8% and applicable mortality tables. The estimated value of the expected future cash flows is \$417,990 and \$982,623 at June 30, 2015 and 2014, respectively.

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 \$4,405,913 and \$4,506,150, which represents the University's portion of the fair value of the trusts' assets at June 30, 2015 and 2014, respectively. The income from these trusts for 2015 and 2014 was \$123,554 and \$115,532, respectively.

Note 7: Line of Credit

The University has a \$4,000,000 revolving bank line of credit expiring in April 2016. There were no borrowings against the line at June 30, 2015 or 2014. The line is collateralized by gross unrestricted institutional revenue of the University. Interest is at LIBOR plus 1.30%, which was 1.49% on June 30, 2015, and is payable monthly.

The University has a \$1,000,000 revolving bank line of credit expiring in June 2016. At June 30, 2015 and 2014, there was \$60,000 and \$345,000, respectively, borrowed against this line. The line is unsecured. Interest is at LIBOR plus 1.70%, which was 1.89% on June 30, 2015, and is payable monthly.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

The University has a \$1,750,000 revolving bank line of credit expiring in March 2017. At June 30, 2015 and 2014, there was \$1,250,000 and \$0, respectively, borrowed against this line. The line is unsecured. Interest is at LIBOR plus 1.70%, which was 1.89% on June 30, 2015, 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 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 \$16,772,527 and \$17,687,527 at June 30, 2015 and 2014, 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, 2015 and 2014, was immaterial.

Note 9: Debt and Capital Lease Obligations

Debt consists of the following:

	2015	2014
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	\$ 203,603	\$ 237,224
Note payable, due July 2017, interest free, payable in monthly installments of \$4,583 through July 2017, unsecured	110,000	243,098
Note payable, due December 2024, payable in monthly installments of principal and interest of \$1,173, at 5.50%, unsecured	103,939	112,051
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 ranging from \$198,000 to \$747,000	16,772,527	17,687,527
Capital lease, due September 2019, payable in semi-annual installments of \$81,933 and one lump sum payment of \$485,068 at maturity, variable interest rate of one month LIBOR plus 1.78%, secured by certain related equipment	1,222,462	—
	\$ 18,412,531	\$ 18,279,900

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

The future maturities of debt and payments on capital lease obligations are as follows:

	Debt (Excluding Leases)	Capital Lease Obligations
2016	\$ 1,049,734	\$ 191,371
2017	1,090,833	190,330
2018	1,078,033	188,470
2019	1,123,340	185,791
2020	1,165,759	586,846
Thereafter	11,682,370	-
	\$ 17,190,069	1,342,808
Less amount representing interest		(120,346)
Present value of future minimum lease payments		\$ 1,222,462

Property and equipment include the following under capital leases:

	2015	2014
Buildings and improvements	\$ 999,390	\$ -
Furnishings and equipment	118,849	-
	1,118,239	-
Accumulated depreciation	(110,033)	-
	1,008,206	-
Construction in progress	-	985,345
	\$ 1,008,206	\$ 985,345

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, 2015.

Interest expense was \$647,124 and \$647,890 in 2015 and 2014, 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, 2015 and 2014, of \$852,901 and \$910,009, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates between 1.00% and 7.60%.

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

Note 11: Net Assets

Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Instruction	\$ 2,622,429	\$ 1,731,143
Academic support	935,089	545,027
Scholarships	944,271	904,115
Facilities	1,695,262	5,204,121
Contribution receivable from charitable remainder trust	417,990	982,623
Accumulated earnings of endowed funds	<u>9,600,365</u>	<u>10,096,586</u>
	<u>\$ 16,215,406</u>	<u>\$ 19,463,615</u>

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	<u>2015</u>	<u>2014</u>
Investment in perpetuity, the income of which is expendable to support		
Instruction	\$ 9,751,520	\$ 8,372,119
Academic support	846,683	839,226
Scholarships	22,602,452	21,730,316
Facilities	2,006,214	2,006,214
Any activity of the University	<u>7,635,325</u>	<u>7,772,095</u>
	<u>\$ 42,842,194</u>	<u>\$ 40,719,970</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>2015</u>	<u>2014</u>
Purpose restrictions accomplished		
Instruction	\$ 597,281	\$ 496,417
Academic support	27,478	1,053
Scholarships	56,662	62,562
Other	<u>45,445</u>	<u>370,869</u>
	<u>\$ 726,866</u>	<u>\$ 930,901</u>

During 2015 and 2014, the University released \$5,021,335 and \$2,208,292, respectively, of temporarily restricted net assets for capital projects.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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 2015 and 2014, the Plan required employer contributions of 6% of employees' gross wages and individual contributions ranging from 0% to 4%. Employer benefit expense under this plan was \$552,664 and \$547,300 for 2015 and 2014, 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	
	2015	2014
Change in benefit obligation		
Beginning of year	\$ (616,939)	\$ (616,939)
Interest cost	(23,566)	(37,744)
Actuarial gain	16,512	14,899
Other actuarial adjustments	(12,529)	(10,155)
Participant contributions	(234,385)	(65,000)
Benefit payments	402,022	98,000
End of year	(468,885)	(616,939)
Fair value of plan assets	—	—
Funded status at end of year	\$ (468,885)	\$ (616,939)

Liabilities recognized in the statements of financial position:

	Pension Benefits	
	2015	2014
Accrued postretirement health care benefits	\$ (468,885)	\$ (616,939)

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Net gain	\$ (246,721)	\$ (230,243)
Prior service credit	<u>(175,345)</u>	<u>(526,000)</u>
	<u>\$ (422,066)</u>	<u>\$ (756,243)</u>

Other significant balances and costs as of June 30 are:

	<u>2015</u>	<u>2014</u>
Benefit cost	\$ 168,290	\$ 152,499
Benefits paid	402,022	98,000

Components of net periodic benefit cost are:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 23,566	\$ 37,744
Amortization of prior service credit	(175,344)	(175,344)
Recognized net actuarial gain	<u>(16,512)</u>	<u>(14,899)</u>
	<u>\$ (168,290)</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 \$19,420 and \$175,345, respectively.

	<u>2015</u>	<u>2014</u>
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.50%	4.00%
Weighted-average assumptions used to determine benefit costs		
Discount rate	4.00%	6.00%

For measurement purposes, an 8.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015, 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:

2016	\$ 45,000
2017	46,000
2018	46,000
2019	46,000
2020	43,000
2021 – 2025	171,000

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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 \$53,000 and \$73,000 as of June 30, 2015 and 2014, respectively.

Note 15: Functional Expenses

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

	<u>2015</u>	<u>2014</u>
Educational		
Instructional	\$ 11,762,722	\$ 12,037,327
Research	1,155,686	682,683
Academic support	2,371,083	1,784,739
Student services	6,992,357	6,674,324
Auxiliary enterprises	<u>4,521,896</u>	<u>4,784,541</u>
Total educational	26,803,744	25,963,614
General and administrative	4,499,856	4,528,174
Fund raising	<u>813,415</u>	<u>804,593</u>
 Total expenses	 <u>\$ 32,117,015</u>	 <u>\$ 31,296,381</u>

Note 16: Significant Estimates, Concentrations and Commitments

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:

Construction Commitments

The University has commitments with certain companies for the construction of buildings and grounds. Commitments are as follows:

	<u>2015</u>	<u>2014</u>
Academic building	\$ —	\$ 259,301
Stadium	<u>14,883</u>	<u>2,455,361</u>
	<u>\$ 14,883</u>	<u>\$ 2,714,662</u>

Contributions

In 2015 and 2014, approximately 15% and 16%, respectively, of contribution revenue was from one donor.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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 those such changes could materially affect the investment amounts reported in the statements of financial position.

Litigation

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

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

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

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, 2015 and 2014:

	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)
June 30, 2015				
Investments				
Money market funds	\$ 5,057,778	\$ 5,057,778	\$ —	\$ —
U.S. Government and agency securities	5,225,301	—	5,225,301	—
Corporate bonds	1,932,646	—	1,932,646	—
Common stocks and mutual funds				
Consumer				
discretionary	5,377,962	5,377,962	—	—
Consumer staples	2,761,871	2,761,871	—	—
Energy	2,369,961	2,369,961	—	—
Financials	6,279,799	6,279,799	—	—
Health care	6,169,173	6,169,173	—	—
Industrials	3,695,673	3,695,673	—	—
Information				
technology	8,627,833	8,627,833	—	—
Materials	1,352,177	1,352,177	—	—
Telecom services	1,228,253	1,228,253	—	—
Other	297,863	297,863	—	—
Private equity funds	218,363	—	—	218,363
Real estate and land contracts	71,770	—	—	71,770
Beneficial interest in perpetual trusts	4,405,913	—	—	4,405,913
Contributions receivable from charitable remainder trusts	417,990	—	—	417,990

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

	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)
June 30, 2014				
Investments				
Money market funds	\$ 4,167,128	\$ 4,167,128	\$ —	\$ —
U.S. Government and agency securities	5,178,851	—	5,178,851	—
Corporate bonds	1,915,466	—	1,915,466	—
Common stocks and mutual funds				
Consumer				
discretionary	4,764,804	4,764,804	—	—
Consumer staples	2,817,168	2,817,168	—	—
Energy	3,338,355	3,338,355	—	—
Financials	5,385,526	5,385,526	—	—
Health care	4,656,059	4,656,059	—	—
Industrials	3,719,837	3,719,837	—	—
Information technology	7,781,564	7,781,564	—	—
Materials	2,025,006	2,025,006	—	—
Telecom services	1,457,567	1,457,567	—	—
Other	835,755	835,755	—	—
Private equity funds	237,688	—	—	237,688
Real estate and land contracts	71,770	—	—	71,770
Beneficial interest in perpetual trusts	4,506,150	—	—	4,506,150
Contributions receivable from charitable remainder trusts	982,623	—	—	982,623

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.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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.

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

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.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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:

	<u>Private Equity Funds</u>	<u>Perpetual Trusts</u>	<u>Charitable Remainder Trusts</u>	<u>Real Estate and Land Contracts</u>
Balance, July 1, 2013	\$ 294,622	\$ 4,065,192	\$ 987,094	\$ 71,770
Total realized and unrealized gains (losses) included in change in net assets	<u>(56,934)</u>	<u>440,958</u>	<u>(4,471)</u>	<u>—</u>
Balance, June 30, 2014	237,688	4,506,150	982,623	71,770
Total realized and unrealized losses included in change in net assets	(19,325)	(100,237)	(143,383)	—
Distributions	<u>—</u>	<u>—</u>	<u>(421,250)</u>	<u>—</u>
Balance, June 30, 2015	<u>\$ 218,363</u>	<u>\$ 4,405,913</u>	<u>\$ 417,990</u>	<u>\$ 71,770</u>
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date				
June 30, 2015	<u>\$ (19,325)</u>	<u>\$ (100,237)</u>	<u>\$ (143,383)</u>	<u>\$ —</u>
June 30, 2014	<u>\$ (56,934)</u>	<u>\$ 440,958</u>	<u>\$ (4,471)</u>	<u>\$ —</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.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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, Debt and Capital Lease Obligations

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 360 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

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

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, 2015 and 2014, was:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ <u>(1,656,209)</u>	\$ <u>9,600,365</u>	\$ <u>37,820,568</u>	\$ <u>45,764,724</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ <u>(1,112,341)</u>	\$ <u>10,096,586</u>	\$ <u>34,227,746</u>	\$ <u>43,211,991</u>

Changes in endowment net assets for the years ended June 30, 2015 and 2014, were:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,112,341)	\$ 10,096,586	\$ 34,227,746	\$ 43,211,991
Investment return				
Investment income	677,099	151,614	—	828,713
Net appreciation (depreciation)	<u>488,794</u>	<u>(416,526)</u>	<u>—</u>	<u>72,268</u>
Total investment return	1,165,893	(264,912)	—	900,981
Contributions	—	—	3,592,822	3,592,822
Other changes	—	(231,309)	—	(231,309)
Appropriation of endowment assets for expenditure	<u>(1,709,761)</u>	<u>—</u>	<u>—</u>	<u>(1,709,761)</u>
Endowment net assets, end of year	\$ <u>(1,656,209)</u>	\$ <u>9,600,365</u>	\$ <u>37,820,568</u>	\$ <u>45,764,724</u>

Heidelberg University
Notes to Financial Statements
June 30, 2015 and 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (2,340,659)	\$ 6,969,530	\$ 29,216,364	\$ 33,845,235
Investment return				
Investment income	745,273	—	—	745,273
Net appreciation	2,218,431	3,937,328	—	6,155,759
Reclassification of investment return	(333,555)	(810,272)	1,143,827	—
Total investment return	2,630,149	3,127,056	1,143,827	6,901,032
Contributions	—	—	2,867,555	2,867,555
Other transfers in	685,446	—	—	685,446
Change in donor restriction	—	—	1,000,000	1,000,000
Appropriation of endowment assets for expenditure	(2,087,277)	—	—	(2,087,277)
Endowment net assets, end of year	<u>\$ (1,112,341)</u>	<u>\$ 10,096,586</u>	<u>\$ 34,227,746</u>	<u>\$ 43,211,991</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2015 and 2014, consisted of:

	2015	2014
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	<u>\$ 37,820,568</u>	<u>\$ 34,227,746</u>
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA with purpose restrictions	<u>\$ 9,600,365</u>	<u>\$ 10,096,586</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 \$(1,656,209) and \$(1,112,341) at June 30, 2015 and 2014, 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.

Certain investment return and amounts were reclassified in 2014 based upon review and reconciliation of funds to donor stipulations.

Heidelberg University

Notes to Financial Statements

June 30, 2015 and 2014

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 5.0% of its endowment fund's average fair value calculated on a quarterly basis using the most recent 12-quarter rolling average. For 2015, the University set the appropriations percentage to 5.0%. 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: Change in Donor Restriction

The University previously classified certain contributions received from a donor as unrestricted net assets. Upon further communication from the donor and change in donor stipulations, it was determined that these contributions should be reflected as permanently restricted net assets. In 2014, the University has therefore reclassified \$1,000,000 in contributions from unrestricted to permanently restricted net assets.

Note 20: Subsequent Events

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