Heidelberg
UNIVERSITY

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017

BKD
CPAs & Advisors

Heidelberg University

June 30, 2018 and 2017

Contents

BKD
CPAs & Advisors

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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, 2018 and 2017, 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 (University), as of June 30, 2018 and 2017, 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
November 19, 2018

Heidelberg University
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 7,257,313	$ 9,633,712
Student accounts receivable, net of allowance of $1,299,086 and $1,281,223 in 2018 and 2017	1,947,668	1,782,782
Contributions receivable, net of allowance of $92,300 and $109,000 in 2018 and 2017	1,685,807	1,986,543
Grants receivable	787,707	881,537
Inventories	119,596	106,695
Prepaid expenses and other assets	751,461	623,474
Notes receivable, net of allowance of $113,676 in 2018 and 2017	2,025,097	1,999,037
Investments	57,577,893	54,120,481
Contributions receivable from charitable remainder trusts	-	349,549
Property and equipment	63,903,851	62,349,618
Beneficial interest in perpetual trusts	4,550,028	4,444,554
Total assets	$ 140,606,421	$ 138,277,982
Liabilities		
Accounts payable	$ 891,818	$ 863,168
Line of credit	-	240,000
Accrued liabilities	5,261,099	4,463,593
Deposits and funds held for others	371,077	229,375
Deferred income	3,601,550	3,269,153
Annuities and trusts payable	702,744	741,331
Accrued postretirement health care benefits	269,226	468,885
Debt and capital lease obligations	14,702,334	15,944,233
Advances for federal loans	1,273,504	1,455,300
Total liabilities	27,073,352	27,675,038
Net Assets		
Unrestricted	48,269,973	45,337,979
Temporarily restricted	15,845,962	18,286,414
Permanently restricted	49,417,134	46,978,551
Total net assets	113,533,069	110,602,944
Total liabilities and net assets	$ 140,606,421	$ 138,277,982

Heidelberg University
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Student tuition and fees	$ 33,304,564	$ -	$ -	$ 33,304,564
Student aid	(17,135,286)	-	-	(17,135,286)
Net tuition and fees	16,169,278	-	-	16,169,278
Auxiliary enterprises	9,269,475	-	-	9,269,475
Grants and contracts	1,727,890	-	-	1,727,890
Private gifts, grants and bequests	1,181,125	2,124,403	1,881,214	5,186,742
Investment return designated for current operations	2,640,254	408,354	-	3,048,608
Interest on loans receivable	46,052	-	-	46,052
Other	455,255	350,368	-	805,623
Change in value of split-interest agreements	-	14,798	128,845	143,643
	31,489,329	2,897,923	2,010,059	36,397,311
Net assets released from restrictions, operating	1,940,819	(1,940,819)	-	-
Total revenues, income and other support	33,430,148	957,104	2,010,059	36,397,311
Expenses				
Instruction	10,065,618	-	-	10,065,618
Research	1,094,383	-	-	1,094,383
Academic support	2,295,739	-	-	2,295,739
Student services	7,131,986	-	-	7,131,986
Operation and maintenance of physical plant	5,118,303	-	-	5,118,303
Auxiliary enterprises	3,846,856	-	-	3,846,856
Institutional support	5,492,518	-	-	5,492,518
Total expenses	35,045,403	-	-	35,045,403
Change in Net Assets Before Other Activities	(1,615,255)	957,104	2,010,059	1,351,908
Other Activities				
Investment return less amounts designated for current operations	614,505	535,188	428,524	1,578,217
Change in donor restriction (Note 19)	1,751,291	(1,751,291)	-	-
Net assets released from restriction, capital	2,181,453	(2,181,453)	-	-
	4,547,249	(3,397,556)	428,524	1,578,217
Change in Net Assets	2,931,994	(2,440,452)	2,438,583	2,930,125
Net Assets, Beginning of Year	45,337,979	18,286,414	46,978,551	110,602,944
Net Assets, End of Year	$ 48,269,973	$ 15,845,962	$ 49,417,134	$ 113,533,069

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 33,431,849	$ -	$ -	$ 33,431,849
(16,808,655)	-	-	(16,808,655)
16,623,194	-	-	16,623,194
9,248,774	-	-	9,248,774
1,507,182	-	-	1,507,182
1,196,661	2,769,096	826,972	4,792,729
2,664,457	328,855	-	2,993,312
63,099	-	-	63,099
437,338	478,777	-	916,115
-	(14,593)	248,544	233,951
31,740,705	3,562,135	1,075,516	36,378,356
1,820,765	(1,820,765)	-	-
33,561,470	1,741,370	1,075,516	36,378,356
9,766,905	-	-	9,766,905
1,250,022	-	-	1,250,022
2,187,219	-	-	2,187,219
6,656,954	-	-	6,656,954
4,773,651	-	-	4,773,651
3,803,586	-	-	3,803,586
5,334,293	-	-	5,334,293
33,772,630	-	-	33,772,630
(211,160)	1,741,370	1,075,516	2,605,726
1,477,778	1,704,356	236,164	3,418,298
-	-	-	-
605,654	(605,654)	-	-
2,083,432	1,098,702	236,164	3,418,298
1,872,272	2,840,072	1,311,680	6,024,024
43,465,707	15,446,342	45,666,871	104,578,920
$ 45,337,979	$ 18,286,414	$ 46,978,551	$ 110,602,944

Heidelberg University
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ 2,930,125	$ 6,024,024
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	2,104,829	2,130,604
Contributions restricted for long-term investment	(1,881,214)	(826,972)
Contributions restricted for capital asset purchases	(1,126,936)	(1,525,696)
Cash received for long-lived assets and long-term investment	(140,365)	(2,493,165)
Realized and unrealized gains on investments	(3,677,627)	(5,610,462)
Change in allowance for uncollectible accounts	1,164	4,680
Gain on disposal of property and equipment	-	(351)
Changes in		
Grants and student accounts receivable	(88,920)	(178,387)
Contributions receivable, including remainder trusts	666,985	89,388
Notes receivable	(26,060)	77,396
Prepaid expenses and other assets	(127,987)	231,330
Inventories	(12,901)	12,859
Beneficial interest in perpetual trusts	(105,474)	(245,117)
Accounts payable	301,552	662,556
Accrued liabilities	597,847	1,742,280
Deposits and funds held for others	141,702	(15,225)
Deferred income	332,397	1,740,150
Annuities and trusts payable	(38,587)	(7,957)
Advances for federal loans	(181,796)	(3,551)
Net cash provided by(used in) operating activities	(331,266)	1,808,384
Investing Activities		
Purchase of property and equipment	(3,931,964)	(3,287,564)
Purchase of investments	(16,525,410)	(21,512,891)
Sales and maturities of investments	16,745,625	22,762,740
Net cash used in investing activities	(3,711,749)	(2,037,715)
Financing Activities		
Payments on long-term debt and capital lease obligations	(1,241,899)	(1,254,698)
Gross borrowings under line-of-credit agreement	1,500,000	1,000,000
Gross repayments under line-of-credit agreement	(1,740,000)	(1,358,000)
Proceeds from contributions restricted for capital asset purchase	1,126,936	1,525,696
Proceeds from contributions restricted for long-term investment	1,881,214	826,972
Proceeds from cash restricted for long-lived assets and long-term investment	140,365	2,493,165
Net cash provided by financing activities	1,666,616	3,233,135
Net Increase (Decrease) in Cash and Cash Equivalents	(2,376,399)	3,003,804
Cash and Cash Equivalents, Beginning of Year	9,633,712	6,629,908
Cash and Cash Equivalents, End of Year	$ 7,257,313	$ 9,633,712
Supplemental Cash Flows Information		
Interest paid	$ 532,172	$ 569,499

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, 2018, the University's cash accounts exceeded federally insured limits by approximately $5,836,000.

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.

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 are insignificant at June 30, 2018 and 2017.

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 2014.

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.

Long-lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

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 $658,000 and $640,000 at June 30, 2018 and 2017, respectively.

Temporarily and Permanently Restricted Net Assets

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

Contributions

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

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

Deferred Revenue

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

Self-Insurance

The University has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims to $150,000 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

	2018	2017
Due within one year	$ 849,213	$ 950,598
Due within one to five years	990,644	1,086,485
Due greater than five years	6,000	144,688
	1,845,857	2,181,771
Less		
Allowance for uncollectible contributions	(92,300)	(109,000)
Unamortized discount (1.75%)	(67,750)	(86,228)
	$ 1,685,807	$ 1,986,543

Note 3: Investments and Investment Return

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

	2018	2017
Money market funds	$ 5,019,627	$ 5,920,708
U.S. Government and agency securities	11,381,268	7,618,137
Real estate and land contracts	1,309,903	—
Corporate bonds	4,209,511	2,817,667
Common stocks and mutual funds		
Consumer discretionary	4,555,949	4,903,075
Consumer staples	2,002,952	2,922,355
Energy	2,323,536	1,814,449
Financials	5,516,458	5,535,552
Health care	4,702,103	4,977,759
Industrials	4,033,796	4,298,442
Information technology	7,907,122	8,231,355
Materials	1,578,574	1,637,904
Real estate	1,364,185	1,597,415
Telecom services	615,281	948,731
Other	974,816	755,213
Private equity funds	82,812	141,719
Total	$ 57,577,893	$ 54,120,481

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2018 and 2017:

	2018	2017
Dividends and interest (net of investment expenses of $121,043 and $148,629)	$ 949,198	$ 801,148
Net realized and unrealized gains on investments	3,677,627	5,610,462
Total return on investments	4,626,825	6,411,610
Investment return designated for current operations	(3,048,608)	(2,993,312)
Investment return less amounts designated for current operations	$ 1,578,217	$ 3,418,298

Note 4: Property and Equipment

The University's property and equipment are as follows:

	Depreciable Years	2018	2017
Buildings and improvements	10 – 50	$ 84,290,217	$ 81,911,651
Furnishings and equipment	5 – 10	19,877,406	19,243,267
		104,167,623	101,154,918
Accumulated depreciation		(45,193,072)	(43,265,129)
		58,974,551	57,889,789
Land and land improvements		2,061,924	1,930,164
Construction in progress		2,867,376	2,529,665
		$ 63,903,851	$ 62,349,618

Note 5: Contributions Receivable From Charitable Remainder Trusts

The University is the beneficiary of a charitable remainder trust administered by a separate bank. Under the terms of the trust, 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 percent and applicable mortality tables. The estimated value of the expected future cash flows was $349,549 at June 30, 2017. The trust matured in 2018 and was distributed to the University.

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 $4,550,028 and $4,444,554, which represents the University's portion of the fair value of the trusts' assets at June 30, 2018 and 2017, respectively. The income from these trusts for 2018 and 2017 was $167,448 and $154,180, respectively.

Note 7: Line of Credit

The University has a $3,000,000 revolving bank line of credit expire in April 2019. There were no borrowings against the line at June 30, 2018 or 2017. The line is collateralized by gross unrestricted institutional revenue of the University. Interest is at LIBOR plus 1.30 percent, which was 3.37 percent on June 30, 2018, and is payable monthly.

The University has a $1,750,000 revolving bank line of credit expiring in December 2018. At June 30, 2018 and 2017, there was $0 and $240,000, respectively, borrowed against this line. The line is unsecured. Interest is at LIBOR plus 1.70 percent, which was 3.77 percent on June 30, 2018, and is payable monthly.

The University has a $610,000 bridge loan expiring in June 2020. At June 30, 2018, there were no borrowings against this loan. The loan is unsecured. Interest is at 4.5 percent and is payable quarterly.

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 10-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 percent on the notional amount of $13,801,527 and $14,831,527 at June 30, 2018 and 2017, 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, 2018 and 2017, was immaterial.

Note 9: Debt and Capital Lease Obligations

Debt consists of the following:

	2018	2017
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	$ 93,187	$ 131,657
Note payable, due December 2024, payable in monthly installments of principal and interest of $1,173, at 5.50%, unsecured	76,755	86,318
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	13,801,527	14,831,527
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	730,866	894,731
	$ 14,702,334	$ 15,944,233

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

	Debt (Excluding Leases)	Capital Lease Obligations
2019	$ 1,123,340	$ 194,927
2020	1,165,758	592,515
2021	1,185,137	-
2022	1,221,910	-
2023	1,271,582	-
Thereafter	8,003,742	-
	$ 13,971,469	787,442
Less amount representing interest		(56,576)
Present value of future minimum lease payments		$ 730,866

Property and equipment include the following under capital leases:

	2018	2017
Buildings and improvements	$ 999,390	$ 999,390
Furnishings and equipment	118,849	118,849
	1,118,239	1,118,239
Accumulated deprecation	(127,491)	(95,618)
	$ 990,748	$ 1,022,621

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, 2018.

Interest expense was $529,902 and $569,438 in 2018 and 2017, 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, 2018 and 2017, of $702,744 and $741,331, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates between 1.00 percent and 6.00 percent.

Note 11: Net Assets

Temporarily Restricted Net Assets

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

	2018	2017
Instruction	$ 3,020,094	$ 2,898,468
Academic support	896,125	903,795
Scholarships	1,007,790	1,050,134
Facilities and other	1,301,749	4,345,788
Contribution receivable from charitable remainder trust	-	349,549
Accumulated earnings of endowed funds	9,620,204	8,738,680
	$ 15,845,962	$ 18,286,414

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	2018	2017
Investment in perpetuity, the income of which is expendable to support		
Instruction	$ 12,046,822	$ 11,049,188
Academic support	1,163,431	1,160,951
Scholarships	25,384,243	24,264,348
Facilities	2,006,214	2,006,214
Any activity of the University	8,816,424	8,497,850
	$ 49,417,134	$ 46,978,551

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:

	2018	2017
Purpose restrictions accomplished		
Instruction	$ 637,161	$ 665,196
Academic support	83,770	201,825
Scholarships	121,954	102,993
Other	1,097,934	850,751
	$ 1,940,819	$ 1,820,765

During 2018 and 2017, the University released $2,181,453 and $605,654, respectively, of temporarily restricted net assets for capital projects.

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 2018 and 2017, the Plan required employer contributions of 6 percent of employees' gross wages and individual contributions ranging from 0 percent to 4 percent. Effective January 1, 2018, the required employer contribution increased from 6 percent to 7 percent. Employer benefit expense under this plan was $694,768 and $613,914 for 2018 and 2017, 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 percent of the premium.

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

	Pension Benefits	
	2018	**2017**
Benefit obligation at end of year	$ (269,226)	$ (468,885)
Fair value of plan assets	—	—
Funded status at end of year	$ (269,226)	$ (468,885)

Liabilities recognized in the statements of financial position:

	Pension Benefits	
	2018	**2017**
Accrued postretirement health care benefits	$ (269,226)	$ (468,885)

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 $0:

	2018	2017
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.25%	3.50%
Weighted-average assumptions used to determine benefit costs		
Discount rate	3.50%	4.00%

For measurement purposes, an 7.0 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018, the date of the most recent valuation. The rate was assumed to decrease gradually to 5 percent by the year 2024 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:

2019	$ 29,000
2020	29,000
2021	28,000
2022	27,000
2023	26,000
2024 – 2028	99,000

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 $0 and $40,000 as of June 30, 2018 and 2017, respectively.

Note 15: Functional Expenses

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

	2018	2017
Educational		
Instructional	$ 12,009,506	$ 11,620,968
Research	1,308,143	1,487,316
Academic support	2,741,264	2,602,421
Student services	8,513,223	7,920,652
Auxiliary enterprises	4,596,869	4,525,626
Total educational	29,169,005	28,156,983
General and administrative	4,836,988	4,832,598
Fund raising	1,039,410	931,678
Total expenses	$ 35,045,403	$ 33,921,259

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:

	2018	2017
Dining Hall Renovations	$ 370,000	$ 1,245,908
Pfleiderer Hall Renovation	814,005	204,077
Stadium Project	760,360	—
	$ 1,944,365	$ 1,449,985

Contributions

In 2018 and 2017, approximately 21 percent and 17 percent, respectively, of contribution revenue was from one donor.

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

		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, 2018				
Investments				
Money market funds	$ 5,019,627	$ 5,019,627	$ —	$ —
U.S. Government and agency securities	11,381,268	—	11,381,268	—
Corporate bonds	4,209,511	—	4,209,511	—
Common stocks and mutual funds				
Consumer discretionary	4,555,949	4,555,948	—	—
Consumer staples	2,002,952	2,002,952	—	—
Energy	2,323,536	2,323,536	—	—
Financials	5,516,458	5,516,458	—	—
Health care	4,702,103	4,702,103	—	—
Industrials	4,033,796	4,033,796	—	—
Information technology	7,907,122	7,907,122	—	—
Materials	1,578,574	1,578,574	—	—
Real estate	1,364,185	1,364,185	—	—
Telecom services	615,281	615,281	—	—
Other	974,816	974,816	—	—
Private equity funds measured at net asset value (A)	82,812	—	—	—
Real estate and land contracts	1,309,903	—	1,309,903	—
Beneficial interest in perpetual trusts	4,550,028	—	—	4,550,028

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

		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, 2017				
Investments				
Money market funds	$ 5,920,708	$ 5,920,708	$ —	$ —
U.S. Government and agency securities	7,618,137	—	7,618,137	—
Corporate bonds	2,817,667	—	2,817,667	—
Common stocks and mutual funds				
Consumer discretionary	4,903,075	4,903,075	—	—
Consumer staples	2,922,355	2,922,355	—	—
Energy	1,814,449	1,814,449	—	—
Financials	5,535,552	5,535,552	—	—
Health care	4,977,759	4,977,759	—	—
Industrials	4,298,442	4,298,442	—	—
Information technology	8,231,355	8,231,355	—	—
Materials	1,637,904	1,637,904	—	—
Real estate	1,597,415	1,597,415	—	—
Telecom services	948,731	948,731	—	—
Other	755,213	755,213	—	—
Private equity funds measured at net asset value (A)	141,719	—	—	—
Beneficial interest in perpetual trusts	4,444,554	—	—	4,444,554
Contributions receivable from charitable remainder trusts	349,549	—	—	349,549

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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 for inputs and valuation techniques used for Level 3 securities.

Level 3 Determination

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:

	Perpetual Trusts	Charitable Remainder Trusts
Balance, July 1, 2016	$ 4,199,437	$ 368,671
Total realized and unrealized gains included in change in net assets	245,117	50,878
Distributions	—	(70,000)
Balance, July 1, 2017	4,444,554	349,549
Total realized and unrealized gains included in change in net assets	105,474	26,482
Distributions	—	(376,031)
Balance, June 30, 2018	$ 4,550,028	$ —
Total gains for the period included in change in net assets attributable to the change in unrealized gains related to assets still held at the reporting date		
June 30, 2018	$ 105,474	$ 26,482
June 30, 2017	$ 245,117	$ 50,878

Note 18: Endowment

The University's endowment consists of approximately 380 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, 2018 and 2017, was:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (1,713,505)	$ 9,620,204	$ 44,338,840	$ 52,245,539

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (1,946,249)	$ 8,738,680	$ 42,144,418	$ 48,936,849

Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,946,249)	$ 8,738,680	$ 42,144,418	$ 48,936,846
Investment return				
Investment income	400,283	408,354	—	808,637
Net appreciation	2,472,715	574,015	—	3,046,730
Total investment return	2,872,998	982,369	—	3,855,367
Contributions	—	—	2,194,422	2,194,422
Other changes	—	(100,845)	—	(100,845)
Appropriation of endowment assets for expenditure	(2,640,254)	—	—	(2,640,254)
Endowment net assets, end of year	$ (1,713,505)	$ 9,620,204	$ 44,338,840	$ 52,245,539

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (3,030,876)	$ 7,043,362	$ 40,825,341	$ 44,837,827
Investment return				
Investment income	356,207	328,855	—	685,062
Net appreciation	3,392,877	1,544,643	—	4,937,520
Total investment return	3,749,084	1,873,498	—	5,622,582
Contributions	—	—	1,319,077	1,319,077
Other changes	—	(178,180)	—	(178,180)
Appropriation of endowment assets for expenditure	(2,664,457)	—	—	(2,664,457)
Endowment net assets, end of year	$ (1,946,249)	$ 8,738,680	$ 42,144,418	$ 48,936,849

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2018 and 2017, consisted of:

	2018	2017
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 44,338,840	$ 42,144,418
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA with purpose restrictions	$ 9,620,204	$ 8,738,680

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 $(1,713,505) and $(1,946,249) at June 30, 2018 and 2017, 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 percent 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 percent annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy (the spending policy) of appropriating for expenditure each year 5.0 percent of its endowment fund's average fair value calculated on a quarterly basis using the most recent 12-quarter rolling average. For 2018, the University set the appropriations percentage to 6.0 percent. 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 some contributions received from donors as temporarily restricted. Upon further communication from the donors and change in stipulations, their contributions are considered unrestricted. In 2018, the University has therefore reclassified $1,751,291 in contributions from temporarily restricted to unrestricted net assets.

Note 20: Subsequent Events

Subsequent events have been evaluated through November 19, 2018, which is the date the financial statements were available to be issued.

Note 21: Future Changes in Accounting Principles

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to the University are as follows:

Statement of financial position:

- The NFP statement of financial position will distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. The ASU retains the current requirements to provide information on the nature and amount of different types of donor restrictions in the notes to the financial statements.
- Underwater donor-restricted endowment funds are to be shown within the donor-restricted fund class. This is a change from the previously required classification as unrestricted.

Statement of activities:

- The standard requires NFPs to report expenses by both nature and function, either on the face of the statement of activities, as a separate statement or within the notes.
- NFPs are required to use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, in the absence of explicit donor stipulations. This eliminates the option to release the donor-imposed restriction over the estimated useful life of the acquired asset.
- Investment income will be shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Statement of cash flows:

- A NFP can continue to choose to either use the indirect or direct method of reporting to present operating cash flows. If the direct method is used, there is no longer a requirement to present or disclose cash flows using the indirect (reconciliation) method.

Notes to the financial statements:

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows.
- Provide disclosures on amounts and purposes of governing Board or self-imposed designations and appropriations as of the end of the period.

The University is in the process of evaluating the impact the amendment will have on the financial statements.