Independent Auditor’s Report and Financial Statements

June 30, 2019 and 2018

Heidelberg University
June 30, 2019 and 2018

Contents

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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, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended and the statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 2 of the financial statements, in 2019, the University adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities.* Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Wayne, Indiana
October 17, 2019

Heidelberg University
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 5,906,751	$ 7,257,313
Restricted cash and cash equivalents for construction projects	22,221,529	-
Student accounts receivable, net of allowance of $1,283,247 and $1,299,086 in 2019 and 2018	1,676,492	1,947,668
Contributions receivable, net of allowance of $92,300 in 2019 and 2018	1,660,293	1,685,807
Grants receivable	956,715	787,707
Inventories	64,621	119,596
Prepaid expenses and other assets	911,479	751,461
Notes receivable, net of allowance of $113,676 in 2019 and 2018	1,714,800	2,025,097
Investments	59,593,075	57,577,893
Property and equipment	64,980,864	63,903,851
Beneficial interest in perpetual trusts	4,618,273	4,550,028
Total assets	$ 164,304,892	$ 140,606,421
Liabilities		
Accounts payable	$ 950,816	$ 891,818
Line of credit	2,532,678	-
Accrued liabilities	2,768,804	5,261,099
Deposits and funds held for others	525,260	371,077
Deferred income	4,824,669	3,601,550
Annuities and trusts payable	674,053	702,744
Accrued postretirement health care benefits	269,226	269,226
Debt and capital lease obligations	36,294,733	14,702,334
Advances for federal loans	1,330,750	1,273,504
Total liabilities	50,170,989	27,073,352
Net Assets		
Without donor restriction	51,604,763	49,983,478
With donor restriction	62,529,140	63,549,591
Total net assets	114,133,903	113,533,069
Total liabilities and net assets	$ 164,304,892	$ 140,606,421

Heidelberg University
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Revenue, Income and Other Support			
Student tuition and fees	$ 34,228,561	$ -	$ 34,228,561
Student aid	(18,859,067)	-	(18,859,067)
Net tuition and fees	15,369,494	-	15,369,494
Auxiliary enterprises	9,682,527	-	9,682,527
Grants and contracts	1,475,431	-	1,475,431
Private gifts, grants and bequests	1,499,106	5,863,730	7,362,836
Investment return designated for current operations	1,464,234	749,197	2,213,431
Interest on loans receivable	-	-	-
Other	499,556	1,454,218	1,953,774
Change in value of split-interest agreements	-	(27,494)	(27,494)
	29,990,348	8,039,651	38,029,999
Net assets released from restrictions, operating	4,159,420	(4,159,420)	-
Total revenues, income and other support	34,149,768	3,880,231	38,029,999
Expenses			
Instruction	12,029,950	-	12,029,950
Research	1,237,197	-	1,237,197
Academic support	2,870,822	-	2,870,822
Student services	8,193,622	-	8,193,622
Auxiliary enterprises	5,025,067	-	5,025,067
Institutional support	6,279,527	-	6,279,527
Fundraising	1,043,783	-	1,043,783
Total expenses	36,679,968	-	36,679,968
Change in Net Assets Before Other Activities	(2,530,200)	3,880,231	1,350,031
Other Activities			
Investment return less amounts designated for current operations	450,634	(1,199,831)	(749,197)
Change in donor restriction (Note 18)	-	-	-
Net assets released from restriction, capital	3,700,851	(3,700,851)	-
	4,151,485	(4,900,682)	(749,197)
Change in Net Assets	1,621,285	(1,020,451)	600,834
Net Assets, Beginning of Year, as Previously Reported	49,983,478	63,549,591	113,533,069
Cumulative Impact of Adoption of ASU2016-14 (Note 2)	-	-	-
Net Assets, Beginning of Year, as Adjusted	-	-	-
Net Assets, End of Year	$ 51,604,763	$ 62,529,140	$ 114,133,903

2018		
Without Donor Restriction	With Donor Restriction	Total
$ 33,304,564	$ -	$ 33,304,564
(17,135,286)	-	(17,135,286)
16,169,278	-	16,169,278
9,269,475	-	9,269,475
1,727,890	-	1,727,890
1,181,125	4,005,617	5,186,742
2,640,254	408,354	3,048,608
46,052	-	46,052
455,255	350,368	805,623
-	143,643	143,643
31,489,329	4,907,982	36,397,311
1,940,819	(1,940,819)	-
33,430,148	2,967,163	36,397,311
11,293,406	-	11,293,406
1,296,016	-	1,296,016
2,692,447	-	2,692,447
8,083,794	-	8,083,794
4,578,112	-	4,578,112
6,061,633	-	6,061,633
1,039,995	-	1,039,995
35,045,403	-	35,045,403
(1,615,255)	2,967,163	1,351,908
381,761	1,196,456	1,578,217
1,751,291	(1,751,291)	-
2,181,453	(2,181,453)	-
4,314,505	(2,736,288)	1,578,217
2,699,250	230,875	2,930,125
45,337,979	65,264,965	110,602,944
1,946,249	(1,946,249)	-
47,284,228	63,318,716	110,602,944
$ 49,983,478	$ 63,549,591	$ 113,533,069

Heidelberg University
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Activities						Support Activities			2019	2018
	Instruction	Research	Academic Support	Student Services	Auxiliary Enterprises	Total Program	Institutional Support	Fundraising	Total Support	Total Expenses	Total Expenses
Salaries and wages	$ 6,310,871	$ 562,569	$ 1,163,555	$ 3,674,161	$ 528,093	$ 12,239,249	$ 1,792,175	$ 775,884	$ 2,568,059	$ 14,807,308	$ 14,361,534
Employee benefits	2,326,625	207,402	428,967	1,354,550	194,692	4,512,236	946,764	-	946,764	5,459,000	4,982,232
Accounting	-	-	-	-	-	-	565,084	-	565,084	565,084	685,860
Advertising and promotion	3,479	9	18	217,167	37	220,710	12,562	882	13,444	234,154	276,952
Conferences/conventions/meetings	107,416	361	24,615	143,327	182,507	458,226	44,257	68,446	112,703	570,929	527,711
Information technology	6,665	-	451,217	5,368	(58)	463,192	56,476	-	56,476	519,668	550,693
Insurance	1,502	5	10	28	20	1,565	371,170	-	371,170	372,735	363,795
Legal	4,225	4,612	1,065	2,976	2,102	14,980	38,814	-	38,814	53,794	20,302
Licenses and fees	31,838	1,574	8,905	58,288	6,441	107,046	109,792	12,698	122,490	229,536	242,058
Management	67,056	31,186	20,258	496,074	23,246	637,820	36,604	21,209	57,813	695,633	958,111
Membership and subscriptions	11,239	505	19,045	33,448	954	65,191	175,713	3,968	179,681	244,872	224,557
Occupancy	127,036	52,075	57,408	134,050	239,414	609,983	182,515	3,967	186,482	796,465	1,156,558
Office expenses	1,364,479	158,603	237,809	782,675	3,137,976	5,681,542	296,210	135,541	431,751	6,113,293	5,290,804
Travel	345,134	45,245	86,063	358,032	12,088	846,562	79,055	21,188	100,243	946,805	735,144
Utilities	485,775	75,549	161,157	344,080	281,269	1,347,830	633,898	-	633,898	1,981,728	2,040,560
Interest	256,738	26,995	64,603	180,961	127,811	657,108	181,751	-	181,751	838,859	523,704
Depreciation & amortization	579,872	70,507	146,127	408,437	288,475	1,493,418	756,687	-	756,687	2,250,105	2,104,828
Totals	$ 12,029,950	$ 1,237,197	$ 2,870,822	$ 8,193,622	$ 5,025,067	$ 29,356,658	$ 6,279,527	$ 1,043,783	$ 7,323,310	$ 36,679,968	$ 35,045,403

See Notes to Financial Statements

Heidelberg University
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ 600,834	$ 2,930,125
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	2,250,106	2,104,829
Contributions restricted for long-term investment	(984,615)	(1,881,214)
Contributions restricted for capital asset purchases	(4,777,224)	(1,126,936)
Cash received for long-lived assets and long-term investment	-	(140,365)
Realized and unrealized gains on investments	(205,595)	(3,677,627)
Provisions for bad debts	-	1,164
Changes in		
Grants and student accounts receivable	102,168	(88,920)
Contributions receivable, including remainder trusts	25,514	666,985
Notes receivable	310,297	(26,060)
Prepaid expenses and other assets	(160,018)	(127,987)
Inventories	54,975	(12,901)
Beneficial interest in perpetual trusts	(68,245)	(105,474)
Accounts payable	58,998	301,552
Accrued liabilities	(2,492,295)	597,847
Deposits and funds held for others	154,183	141,702
Deferred income	1,223,119	332,397
Annuities and trusts payable	(28,691)	(38,587)
Advances for federal loans	57,246	(181,796)
Net cash used in operating activities	(3,879,243)	(331,266)
Investing Activities		
Purchase of property and equipment	(3,327,119)	(3,931,964)
Purchase of investments	(27,896,295)	(16,525,410)
Sales and maturities of investments	26,086,708	16,745,625
Net cash used in investing activities	(5,136,706)	(3,711,749)
Financing Activities		
Payments on long-term debt and capital lease obligations	(15,039,987)	(1,241,899)
Proceeds from long term debt	36,632,386	-
Gross borrowings under line-of-credit agreement	3,819,678	1,500,000
Gross repayments under line-of-credit agreement	(1,287,000)	(1,740,000)
Proceeds from contributions restricted for capital asset purchase	4,777,224	1,126,936
Proceeds from contributions restricted for long-term investment	984,615	1,881,214
Proceeds from cash restricted for long-lived assets and long-term investment	-	140,365
Net cash provided by financing activities	29,886,916	1,666,616
Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	20,870,967	(2,376,399)
Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	7,257,313	9,633,712
Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	$ 28,128,280	$ 7,257,313
Cash and cash equivalents	$ 5,906,751	$ 7,257,313
Restricted cash and cash equivalents for construction projects	22,221,529	-
Cash and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	$ 28,128,280	$ 7,257,313
Supplemental Cash Flows Information		
Interest paid	$ 830,863	$ 532,172

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, 2019, the University's cash accounts exceeded federally insured limits by approximately $10,889,938.

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

Restricted Cash and Cash Equivalents for Construction Projects

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with a lender to fund the restoration and renovation of France Hall and Miller Hall, the construction of a new Student and Community Welcome Center, the construction of new townhouse apartments for student housing, and the renovation of The Little Theatre, Frost Lecture Hall, and the Media Communication Center.

Investments and Investment Return

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

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as without donor restrictions or with donor restrictions 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 annually 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 to 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, 2019 and 2018.

Inventories

Inventories consist primarily of books and supplies and are stated at the lower of cost or net realizable value. 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 2016.

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, 2019 and 2018.

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 $663,000 and $658,000 at June 30, 2019 and 2018, respectively.

Net Assets

The University's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as without donor restrictions and with donor restrictions as follows:

- *Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. The net asset without donor restrictions class included assets and liabilities of the University and may be used at the discretion of management to support the University's purposes and operations.

- *Net Assets with Donor Restrictions* – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time or are to be maintained in perpetuity by the University. Unconditional promises to give that are due in future periods are classified as net assets with donor restrictions. Generally, the donors of assets with donor restrictions permit the University to use all or part of the income earned on related investments for general or specific purposes. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restriction. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction 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 revenue and net assets without donor restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions to net assets without donor restrictions 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.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The University records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

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 statements of activities. The statements of functional expenses present the natural classification detail of expense by function. Certain costs have been allocated among the program, institutional support and fund raising categories based on the estimates of time spent by University personnel and other methods.

Revisions

Certain immaterial revisions have been made to the 2018 financial statements related to allocation of certain expenses. These revisions did not have an impact on total expenses presented or change in net assets for 2018.

The following financial statement line items for fiscal year 2018 were affected by these revisions:

	As Revised	As Previously Reported	Effect of Change
Statement of Activities			
Instruction	$ 11,293,406	$ 10,065,618	$ 1,227,788
Research	1,296,016	1,094,383	201,633
Academic support	2,692,447	2,295,739	396,708
Student services	8,083,794	7,131,986	951,808
Auxiliary enterprises	4,578,112	3,846,856	731,256
Operating of maintenance of physical plant**	—	5,118,303	(5,118,303)
Institutional support	6,061,633	5,492,518	569,115
Fundraising*	1,039,995	—	1,039,995
Total expenses	$ 35,045,403	$ 35,045,403	$ —

* Part of institutional support
**Allocated among various functions

Note 2: Changes in Accounting Principle

During 2019, the University adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This adoption had no impact on previously reported total change in net assets. A summary of the changes by financial statement area is as follows:

Statement of financial position:

- The statement of financial position distinguishes between two new classes of net assets — those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from previously required classification as unrestricted net assets. As a result, $1,946,249 of underwater donor-restricted funds were reclassified from net assets without donor restriction to net assets with donor restriction. In addition, the 2018 statement of activities has a reclassification of $232,744 appreciation from without donor restriction to with donor restriction within the investment return less amounts designated for current operations line item.

Statement of activities:

- The standard requires the University to report expenses by both nature and function in one location, either in the statement of activities, as a separate statement or within the notes.
- Investment income is shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Notes to the financial statements:

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.

Note 3: Contributions Receivable

	2019	2018
Due within one year	$ 533,900	$ 849,213
Due within one to five years	1,299,545	990,644
Due greater than five years	8,000	6,000
	1,841,445	1,845,857
Less		
Allowance for uncollectible contributions	(92,300)	(92,300)
Unamortized discount (1.75%)	(88,852)	(67,750)
	$ 1,660,293	$ 1,685,807

Note 4: Investments and Investment Return

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

	2019	2018
Money market funds	$ 9,497,849	$ 5,019,627
U.S. Government and agency securities	9,621,563	11,381,268
Real estate and land contracts	1,401,408	1,309,903
Corporate bonds	3,558,661	4,209,511
Common stocks and mutual funds		
Consumer discretionary	4,013,543	4,555,949
Consumer staples	2,202,841	2,002,952
Energy	2,174,603	2,323,536
Financials	5,164,231	5,516,458
Health care	4,522,920	4,702,103
Industrials	4,038,788	4,033,796
Information technology	6,461,166	7,907,122
Materials	1,438,513	1,578,574
Real estate	1,477,460	1,364,185
Telecom services	2,873,023	615,281
Other	1,081,834	974,816
Private equity funds	64,672	82,812
Total	$ 59,593,075	$ 57,577,893

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2019 and 2018:

	2019	2018
Dividends and interest	$ 1,258,639	$ 949,198
Net realized and unrealized gains on investments	205,595	3,677,627
Total return on investments	1,464,234	4,626,825
Investment return designated for current operations	(2,213,431)	(3,048,608)
Investment return less amounts designated for current operations	$ (749,197)	$ 1,578,217

Note 5: Property and Equipment

The University's property and equipment are as follows:

	Depreciable Years	2019	2018
Buildings and improvements	10 – 50	$ 88,886,641	$ 84,290,217
Furnishings and equipment	5 – 10	20,259,857	19,877,406
		109,146,498	104,167,623
Accumulated depreciation		(47,269,897)	(45,193,072)
		61,876,601	58,974,551
Land and land improvements		2,195,879	2,061,924
Construction in progress		908,384	2,867,376
		$ 64,980,864	$ 63,903,851

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 $4,618,273 and $4,550,028, which represents the University's portion of the fair value of the trusts' assets at June 30, 2019 and 2018, respectively. The income from these trusts for 2019 and 2018 was $68,248 and $167,448, respectively.

Note 7: Line of Credit

The University has a $3,000,000 revolving bank line of credit that expires in June 2020. At June 30, 2019 there was $2,532,678 borrowed against the line. There were no borrowings against the line at June 30, 2018. The line is collateralized by gross institutional revenue without donor restrictions of the University. Interest is at LIBOR plus 1.30 percent, which was 3.66 percent on June 30, 2019, 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 10-year interest rate swap agreement that provided 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 at June 30, 2018. The difference between the variable interest rate and the fixed interest rate was settled monthly and was included in interest expense. The agreement was recorded at fair value with subsequent changes in fair value included in expenses. The fair value of the swap agreement at June 30, 2018 was immaterial. On June 21, 2019, the interest rate swap was terminated for a settlement amount of $304,900.

Note 9: Debt and Capital Lease Obligations

Debt consists of the following:

	2019	2018
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	$ 52,949	$ 93,187
Note payable, due December 2024, payable in monthly installments of principal and interest of $1,173, at 5.50%, unsecured	—	76,754
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
2019 Series County of Seneca, Ohio Economic Development Revenue Bond acting through the Rural Housing Service of the United States Department of Agriculture, interest-only payments during construction, construction estimated to be complete in 2022, interest fixed at 3.37%, maturing June 20, 2059. Unamortized debt issuance costs were $825,216 at June 30, 2019	36,500,000	—
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	567,000	730,866
	37,119,949	14,702,334
Less: debt issuance costs	(825,216)	—
	$ 36,294,733	$ 14,702,334

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

	Debt (Excluding Leases)	Capital Lease Obligations
2020	$ 42,086	$ 592,515
2021	10,863	-
2022	-	-
2023	850,000	-
2024	900,000	-
Thereafter	34,750,000	-
	$ 36,552,949	592,515
Less amount representing interest		(25,515)
Present value of future minimum lease payments		$ 567,000

Property and equipment include the following under capital leases:

	2019	2018
Buildings and improvements	$ 999,390	$ 999,390
Furnishings and equipment	118,849	118,849
	1,118,239	1,118,239
Accumulated deprecation	(159,364)	(127,491)
	$ 958,875	$ 990,748

The 2013 Series bonds were 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. In June 2019, the University replaced the 2013 Series bonds with the 2019 Series bonds. At the time of issuance of the 2019 Series, the lease related to 2013 Series was terminated.

The 2019 Series bonds in the amount of $36,500,000 were issued on June 18, 2019. The proceeds of the bonds are being used to fund the restoration and renovation of France Hall and Miller Hall, the construction of a new Student and Community Welcome Center, the construction of new townhouse apartments for student housing, and the renovation of The Little Theatre, Frost Lecture Hall, and the Media Communication Center as well as refinance prior debt obligations.

The bond payable agreements contain certain covenants. As of June 30, 2019, management is not aware of any violations of these covenants.

Interest expense was $809,893 and $529,902 in 2019 and 2018, 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, 2019 and 2018, of $674,053 and $702,744, 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 With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018, are restricted for the following purposes:

	2019	2018
Subject to expenditure for specified purpose		
Instruction	$ 2,762,912	$ 3,020,094
Academic support	584,129	896,125
Scholarships	940,557	1,007,790
Facilities and other	1,174,127	1,301,749
	5,461,725	6,225,758
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Instruction	1,519,867	1,722,824
Academic support	1,112,202	1,230,229
Scholarships	3,444,801	3,852,203
Facilities	284,882	298,937
General	2,374,425	2,516,011
	8,736,177	9,620,204
Subject to endowment spending policy and appropriation		
Restricted by donors for		
Instruction	8,592,820	8,527,645
Academic support	5,166,778	5,075,708
Scholarships	24,967,039	24,308,869
Facilities	1,938,193	1,938,193
General	4,596,887	4,488,425
Underwater endowments	(2,010,591)	(1,713,505)
	43,251,126	42,625,335
Total endowments	51,987,303	52,245,539
Not subject to spending policy or appropriation		
Instruction	4,618,274	4,550,028
Academic support	254,052	337,145
Scholarships	207,786	191,121
	5,080,112	5,078,294
Total net assets with donor restrictions	$ 62,529,140	$ 63,549,591

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:

	2019	2018
Purpose restrictions accomplished		
Instruction	$ 891,383	$ 637,161
Academic support	565,985	83,770
Scholarships	801,201	121,954
Other	1,900,851	1,097,934
	$ 4,159,420	$ 1,940,819

During 2019 and 2018, the University released $3,770,851 and $2,181,453, respectively, of 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 College Retirement Equities Fund. The Plan covers substantially all full-time administrative officers, faculty and certain staff. During 2019 and 2018, the Plan required employer contributions of 6 percent or 7 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 $728,170 and $694,768 for 2019 and 2018, 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	
	2019	2018
Benefit obligation at end of year	$ (269,226)	$ (269,226)
Fair value of plan assets	—	—
Funded status at end of year	$ (269,226)	$ (269,226)

Liabilities recognized in the statements of financial position:

	Pension Benefits	
	2019	2018
Accrued postretirement health care benefits	$ (269,226)	$ (269,226)

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:

	2019	2018
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.25%	3.25%
Weighted-average assumptions used to determine benefit costs		
Discount rate	3.50%	3.50%

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:

2020	$ 29,000
2021	28,000
2022	27,000
2023	26,000
2024	25,000
2025 – 2028	74,000

Note 14: 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:

	2019	2018
France Hall Renovation	$ 8,600,000	$ —
Miller Hall Renovation	7,866,000	—
Townhomes Project	4,245,000	—
Dining Hall Renovations	—	370,000
Pfleiderer Hall Renovation	—	814,005
Stadium Project	—	760,360
	$ 20,711,000	$ 1,944,365

Contributions

In 2019 and 2018, approximately 46 percent and 21 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 arise 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 15: 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, 2019 and 2018:

		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, 2019				
Investments				
Money market funds	$ 9,497,849	$ 9,497,849	$ —	$ —
U.S. Government and agency securities	9,621,563	—	9,621,563	—
Corporate bonds	3,558,661	—	3,558,661	—
Common stocks and mutual funds				
Consumer discretionary	4,013,543	4,013,543	—	—
Consumer staples	2,202,841	2,202,841	—	—
Energy	2,174,603	2,174,603	—	—
Financials	5,164,231	5,164,231	—	—
Health care	4,522,920	4,522,920	—	—
Industrials	4,038,788	4,038,788	—	—
Information technology	6,461,166	6,461,166	—	—
Materials	1,438,513	1,438,513	—	—
Real estate	1,477,460	1,477,460	—	—
Telecom services	2,873,023	2,873,023	—	—
Other	1,081,834	1,081,834	—	—
Private equity funds measured at net asset value (A)	64,672	—	—	—
Real estate and land contracts	1,401,408	—	1,401,408	—
Beneficial interest in perpetual trusts	4,618,273	—	—	4,618,273

(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	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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.

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.

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, 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, July 1, 2018	4,550,028	—
Total realized and unrealized gains included in change in net assets	68,245	—
Distributions	—	—
Balance, June 30, 2019	$ 4,618,273	$ —
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, 2019	$ 68,245	$ —
June 30, 2018	$ 105,474	$ 26,482

Note 16: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Financial assets, at year-end	$ 96,633,128	$ 73,806,416
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(3,918,752)	(4,764,799)
Subject to appropriation and satisfaction of donor restrictions	(54,435,577)	(54,637,551)
Contributions receivable	(1,660,293)	(1,685,807)
Bond proceeds restricted for construction	(22,221,529)	—
	$ 14,396,977	$ 12,718,259

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purpose of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

The Board of Trustees has authorized a distribution from the endowment to support operations for fiscal year 2020 of approximately $2,100,000. This amount is netted against restrictions subject to appropriation and satisfaction of donor restrictions in the table above. To help manage unanticipated liquidity needs, the College has committed lines of credit in the amount of $3,000,000 as described in Note 7, which it could draw upon.

Note 17: 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 net assets with donor restrictions (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 net assets with donor restrictions 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

Heidelberg University
Notes to Financial Statements
June 30, 2019 and 2018

The composition of net assets by type of endowment fund at June 30, 2019 and 2018, was:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ —	$ 51,987,303	$ 51,987,303

	2018		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ —	$ 52,245,539	$ 52,245,539

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ —	$ 52,245,539	$ 52,245,539
Investment return			
Investment income	—	1,023,838	1,023,838
Net appreciation	—	122,136	122,136
Total investment return	—	1,145,975	1,145,975
Contributions	—	922,877	922,877
Other changes	—	(113,656)	(113,656)
Appropriation of endowment assets for expenditure	—	(2,213,431)	(2,213,431)
Endowment net assets, end of year	$ —	$ 51,987,303	$ 51,987,303

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ —	$ 48,936,846	$ 48,936,846
Investment return			
Investment income	—	808,637	808,637
Net appreciation	—	3,046,730	3,046,730
Total investment return	—	3,855,367	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	$ —	$ 52,245,539	$ 52,245,539

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. Such endowments are often referred to as "underwater" endowments. The College is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value.

In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. At June 30, 2019, funds with original gift values of $17,931,205, fair values of $15,920,614, and deficiencies of $2,010,591 were reported in net assets with donor restrictions. At June 30, 2018, funds with original gift values of $13,233,851, fair values of $11,520,346, and deficiencies of $1,713,505 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body at the time of such appropriation. Any future gains that restore the fair value of the assets of the endowment fund to the required level shall be classified as increases in net assets with donor restrictions.

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.

The University has a policy that permits spending from underwater endowment funds depending on the degree to which the funds is underwater, unless otherwise precluded by donor stipulations or laws and regulations. The governing Board appropriated for expenditure 5 percent for the 12 quarter rolling average.

Note 18: Change in Donor Restriction

The University previously classified some contributions received from donors as net assets with donor restrictions. Upon further communication from the donors and change in stipulations, their contributions are considered to be without donor restrictions. In 2018, the University has therefore reclassified $1,751,291 in contributions from net assets with donor restrictions to net assets without donor restrictions.

Note 19: Subsequent Events

Subsequent events have been evaluated through October 17, 2019, which is the date the financial statements were available to be issued.

Note 20: Future Changes in Accounting Principles

Recognition for Revenue, Grants and Contributions

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018 (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019 (December 15, 2018, for not-for-profits that are conduit debt obligors). The University is in the process of evaluating the effect the amendment will have on the financial statements.

Additionally, FASB issued guidance clarifying whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, Revenue from Contracts with Customers, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional. For public entities, the standard will be effective for annual reporting periods beginning on or after June 15, 2018. For all other entities, the standard will be effective for reporting periods beginning on or after December 15, 2018.