Independent Auditor's Report and Consolidated Financial Statements

June 30, 2017 and 2016

UNIVERSITY of MOUNT UNION

Where Exceptional Begins

BKD LLP

CPAs & Advisors

University of Mount Union
June 30, 2017 and 2016

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Trustees
University of Mount Union
Alliance, Ohio

We have audited the accompanying consolidated financial statements of the University of Mount Union (University), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Mount Union as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
October 20, 2017

University of Mount Union

Consolidated Statements of Financial Position

June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 10,137,822	$ 11,566,486
Short-term investments	808,317	1,937,773
Accounts receivable, net of allowance; 2017 - $344,905, 2016 - $335,486	1,400,366	1,084,197
Contributions receivable, net of allowance; 2017 - $215,000, 2016 - $175,000	2,006,504	2,140,221
Inventory	324,677	305,022
Loans receivable	3,290,264	3,419,240
Investments	118,333,532	107,978,531
Beneficial interest in perpetual trusts and charitable remainder trusts	5,862,644	5,648,599
Annuity and life income funds held in trust	6,294,421	6,217,685
Property and equipment, net	148,817,384	152,502,563
Other assets	122,309	64,132
Total assets	$ 297,398,240	$ 292,864,449
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,173,745	$ 1,061,735
Accrued expenses	5,384,064	5,226,026
Deposits and other	1,337,172	1,237,544
Annuities and trusts payable	1,630,287	1,731,737
Debt	25,459,431	31,324,050
Advances from government for student loans	3,155,013	3,197,889
Total liabilities	38,139,712	43,778,981
Net Assets		
Unrestricted	123,993,902	123,435,311
Temporarily restricted	67,421,421	60,146,296
Permanently restricted	67,843,205	65,503,861
Total net assets	259,258,528	249,085,468
Total liabilities and net assets	$ 297,398,240	$ 292,864,449

University of Mount Union

Consolidated Statements of Activities

Years Ended June 30, 2017 and 2016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Educational and general				
Student tuition and fees	$ 62,443,610	$ —	$ —	$ 62,443,610
Less financial aid	(29,225,556)	—	—	(29,225,556)
Net student tuition and fees	33,218,054	—	—	33,218,054
Gifts and private grants	3,115,113	278,357	1,809,746	5,203,216
Investment return designated for operations	6,000,000	—	—	6,000,000
Change in value of split-interest agreements	—	54,400	529,598	583,998
Other income	1,070,953	1,561	—	1,072,514
Total educational and general revenue	43,404,120	334,318	2,339,344	46,077,782
Auxiliary enterprises	14,214,278	—	—	14,214,278
Net assets released from restrictions	324,606	(324,606)	—	—
Total revenue, income and other support	57,943,004	9,712	2,339,344	60,292,060
Expenses				
Educational and general				
Instruction	17,964,098	—	—	17,964,098
Academic support	2,647,190	—	—	2,647,190
Operation and maintenance of plant	5,786,814	—	—	5,786,814
Student services	8,033,272	—	—	8,033,272
Institutional support	9,792,503	—	—	9,792,503
Depreciation	4,528,418	—	—	4,528,418
Total educational and general expenses	48,752,295	—	—	48,752,295
Auxiliary enterprises				
Debt service	1,147,272	—	—	1,147,272
Operations	6,556,804	—	—	6,556,804
Depreciation	1,007,463	—	—	1,007,463
Total auxiliary enterprises expenses	8,711,539	—	—	8,711,539
Total expenses	57,463,834	—	—	57,463,834
Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Other Items	479,170	9,712	2,339,344	2,828,226
Investment return less amounts designated for operations	19,390	7,265,413	—	7,284,803
Change in value of interest rate swap	60,031	—	—	60,031
Change in Net Assets	558,591	7,275,125	2,339,344	10,173,060
Net Assets, Beginning of Year	123,435,311	60,146,296	65,503,861	249,085,468
Net Assets, End of Year	$ 123,993,902	$ 67,421,421	$ 67,843,205	$ 259,258,528

2016			
Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
$ 59,093,665	$ —	$ —	$ 59,093,665
(27,593,047)	—	—	(27,593,047)
31,500,618	—	—	31,500,618
3,047,597	192,305	1,045,789	4,285,691
6,050,000	—	—	6,050,000
—	(12,200)	(172,466)	(184,666)
976,033	5,390	—	981,423
41,574,248	185,495	873,323	42,633,066
14,423,202	—	—	14,423,202
183,255	(183,255)	—	—
56,180,705	2,240	873,323	57,056,268
17,182,165	—	—	17,182,165
2,649,174	—	—	2,649,174
5,569,470	—	—	5,569,470
7,513,999	—	—	7,513,999
9,994,576	—	—	9,994,576
4,563,152	—	—	4,563,152
47,472,536	—	—	47,472,536
1,490,426	—	—	1,490,426
6,336,856	—	—	6,336,856
1,025,966	—	—	1,025,966
8,853,248	—	—	8,853,248
56,325,784	—	—	56,325,784
(145,079)	2,240	873,323	730,484
189,730	(10,367,133)	—	(10,177,403)
(42,306)	—	—	(42,306)
2,345	(10,364,893)	873,323	(9,489,225)
123,432,966	70,511,189	64,630,538	258,574,693
$ 123,435,311	$ 60,146,296	$ 65,503,861	$ 249,085,468

University of Mount Union

Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	$ 10,173,060	$ (9,489,225)
Items not requiring (providing) operating activities cash flows		
Realized and unrealized (gains) losses on investments	(11,201,361)	10,898,479
Loss on sale of property and equipment	42,197	—
Depreciation	5,535,881	5,589,118
Amortization of bond premium	—	(15,926)
Amortization of bond issuance costs	14,068	23,698
Gain on extinguishment of debt	(101,941)	—
Change in allowance for uncollectible accounts and contributions receivable	49,419	(187,019)
Contributions received restricted for long-term investment	(1,870,923)	(1,045,789)
Contributions received restricted for acquisition of long-lived assets	(40,000)	(166,864)
Changes in		
Accounts, loans and contributions receivable	(102,895)	1,079,998
Inventory	(19,655)	27,250
Other assets	(58,177)	(26,753)
Accounts payable and accrued expenses	192,835	(784,263)
Annuities and trusts payable	(101,450)	(56,974)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	(290,781)	686,902
Deposits and other	99,628	(76,153)
Advances from government for student loans	(42,876)	22,044
Net cash provided by operating activities	2,277,029	6,478,523
Investing Activities		
Purchase of property and equipment	(1,815,686)	(1,585,430)
Purchase of investments	(14,284,458)	(16,047,454)
Proceeds from sales of investments	16,260,274	13,383,339
Net cash provided by (used in) investing activities	160,130	(4,249,545)
Financing Activities		
Payments on bonds and notes payable	(5,776,746)	(2,147,304)
Contributions received restricted for long-term investment	1,870,923	1,045,789
Contributions received restricted for acquisition of long-lived assets	40,000	166,864
Net cash used in financing activities	(3,865,823)	(934,651)
Increase (Decrease) in Cash and Cash Equivalents	(1,428,664)	1,294,327
Cash and Cash Equivalents, Beginning of Year	11,566,486	10,272,159
Cash and Cash Equivalents, End of Year	$ 10,137,822	$ 11,566,486
Supplemental Cash Flows Information		
Fixed assets in accounts payable	$ 77,213	$ —
Cash paid for interest	1,539,752	1,498,799

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

Nature of Operations

University of Mount Union (University) is a private tax-exempt, nonprofit educational institution located in Alliance, Ohio. The University is affiliated with The United Methodist Church and is an institution of higher education that offers undergraduate and graduate programs designed to meet the needs of the student body. The University's primary source of revenue is from tuition and auxiliary services from students.

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 revenue, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the University of Mount Union and its wholly-owned subsidiaries Raiders Corner, LLC and Raiders Penn, LLC. These subsidiaries were formed to hold title to and lease certain real property. All material interorganizational accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting cash flows, the University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of repurchase agreements.

At June 30, 2017, the University's cash accounts exceeded federally insured limits by approximately $17,900,000.

Investments and Investment Return

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

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, 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.

Accounts and Loans Receivable

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 unpaid after the due date bear interest at 1 percent per month. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Loans receivable consist primarily of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amount, net of an allowance for doubtful loans. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. 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 loans 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. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective 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 it fair value.

No asset impairment was recognized during the years ended June 30, 2017 and 2016.

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.

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 reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Inventory Pricing

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

Government Grants

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Debt Premium and Unamortized Financing Costs

Financing costs and any associated premium related to the University's long-term debt is amortized over the term of the related debt.

Income Taxes

The University is exempt from income taxes under Section 501 of the 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.

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 activities, institutional support and fundraising categories based on time and effort.

Self Insurance

The University has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to approximately $2,752,000.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements for the adoption of ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial. These reclassifications had no effect on the change in net assets.

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 13,400,507	$ 13,400,507	$ 13,464,295	$ 13,464,295
U.S. Treasury securities and government agency bonds	4,210,911	4,187,039	3,951,706	4,122,339
Corporate debt securities	9,140,826	8,965,851	8,893,665	8,921,569
Mortgage-backed securities, GSEs	590,551	606,784	632,292	662,731
Municipal bonds	263,039	252,585	263,039	258,591
Mutual funds				
Domestic equity mutual funds	25,203,074	30,369,847	26,855,081	28,635,618
Fixed income mutual funds	11,308,832	11,018,532	10,684,458	10,298,232
International and emerging market mutual funds	9,665,779	12,989,970	9,525,215	11,204,350
Alternative funds	7,879,962	8,262,514	2,712,672	2,676,194
Common stocks				
Industrials	1,493,024	2,186,317	2,006,271	2,457,305
Consumer discretionary	397,617	1,051,498	692,250	1,111,700
Consumer staples	1,269,857	1,498,973	584,414	850,432
Energy	928,991	1,014,558	1,408,407	1,312,575
Financial	2,834,037	4,464,970	3,533,475	4,292,762
Materials	1,308,102	1,001,296	1,600,199	1,075,444
Information technology	2,332,868	4,217,599	3,317,799	4,768,582
Health care	1,804,898	2,376,109	1,860,425	2,700,032
Other	1,074,432	1,147,050	1,280,889	1,424,950
Alternative investments				
Limited partnerships	2,582,172	6,604,777	2,564,565	5,112,436
Hedge funds	2,905,214	3,525,073	3,714,435	4,566,167
	$ 100,594,693	$ 119,141,849	$ 99,545,552	$ 109,916,304

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	$ 808,317	$ 808,317	$ 1,937,773	$ 1,937,773
Long-term investments	99,786,376	118,333,532	97,607,779	107,978,531
	$ 100,594,693	$ 119,141,849	$ 99,545,552	$ 109,916,304

Investments were held for the following purposes at June 30:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Endowment	$ 98,961,081	$ 117,513,549	$ 96,782,527	$ 107,165,799
Other	1,633,612	1,628,300	2,763,025	2,750,505
	$ 100,594,693	$ 119,141,849	$ 99,545,552	$ 109,916,304

Alternative Investments

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 3,525,073	None	Quarterly	65 – 90 days
Limited partnerships (B)	6,604,777	None	Monthly	7 days

	June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 4,566,167	None	Quarterly	65 – 90 days
Limited partnerships (B)	5,112,436	None	Monthly	7 days

(A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds’ composite portfolio includes investments in various private investment funds that employ various long/short, macro and absolute return strategies.

(B) This category includes an investment in a limited partnership that primarily invests and takes long positions in U.S. and foreign common stocks. Management of the fund has the ability to shift investments and strategies.

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	$ 2,083,442	$ 6,771,076
Net realized gains (losses) on investments reported at fair value	3,024,957	(6,848,552)
Net unrealized gains (losses) on investments reported at fair value	8,176,404	(4,049,927)
	$ 13,284,803	$ (4,127,403)

Total investment return is reflected in the statements of activities as follows:

	2017	2016
Operating income	$ 6,000,000	$ 6,050,000
Other nonoperating loss	7,284,803	(10,177,403)
	$ 13,284,803	$ (4,127,403)

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2017	2016
Due within one year	$ 114,220	$ 105,337
Due in one to five years	275,000	471,289
Due in five to ten years	12,750	11,690
	401,970	588,316
Less		
Allowance for uncollectible contributions	(215,000)	(175,000)
Unamortized discount (2.00% - 4.50%)	(17,707)	(31,221)
	$ 169,263	$ 382,095

The University is also the beneficiary of a trust administered by a nonrelated party. The assets of this trust are included in contributions receivable on the statements of financial position of the University. Contributions receivable from this charitable trust totaled $1,837,241 and $1,758,126 as of June 30, 2017 and 2016, respectively.

Note 4: Beneficial Interest in Perpetual Trusts and Remainder Trusts

The University is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $5,388,822 and $5,103,701, which represents the fair value of the trust assets at June 30, 2017 and 2016, respectively.

The University is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive a remainderment of trust assets at a future date. The present value of the expected future cash flows is $473,822 and $544,898 at June 30, 2017 and 2016, respectively. The discount rates used to calculate the present value were 4 percent to 8 percent.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of the following:

	2017	2016
Land and land improvements	$ 22,034,364	$ 21,686,227
Buildings	189,919,140	189,309,623
Equipment and vehicles	20,772,139	20,557,126
Construction in progress	621,582	116,270
	233,347,225	231,669,246
Less accumulated depreciation and amortization	(84,529,841)	(79,166,683)
	$ 148,817,384	$ 152,502,563

Note 6: Line of Credit

The University has a $1,000,000 revolving bank line of credit with no expiration date. At June 30, 2017 and 2016, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Note 7: Debt

	2017	2016
2006 Series Ohio Higher Educational Facility Revenue Bonds at 4.50% to 5.25%, which consist of $4,145,000 serial bonds due October 1, 2007-2016, and $11,865,000 term bonds due October 1, 2021, 2026 and 2031. The bonds were issued at a premium of $398,159. These bonds were retired early with proceeds from the issuance of the 2017 bonds. Unamortized bond issuance costs were $136,958 at June 30, 2016.	$ —	$ 12,375,000
2010 Series Ohio Higher Educational Facility Revenue Bonds at 2.0% to 5.125%, which consist of $2,960,000 of serial bonds due October 1, 2011-2020, and $8,440,000 term bonds due October 1, 2025 and 2035. Unamortized bond issuance costs were $262,214 and $276,784 at June 30, 2017 and 2016, respectively.	9,860,000	10,185,000
2017 Series Ohio Higher Educational Facility Revenue Bonds at 3.0% to 4.25%, payable in quarterly installments ranging from $129,748 to $496,346, with final payment due October 2031. Unamortized bond issuance costs were $160,500 at June 30, 2017.	11,895,252	—
Note payable, unsecured, interest rate of 4.86%, payable in monthly installments of $47,412 with a final balloon payment of $3,770,828 due in September 2016.	—	3,818,625
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of $103,604 beginning on June 1, 2011, with final payment due June 2020.	282,138	367,374
Note payable, unsecured, interest rate of 3.00%, payable in annual installments of $65,506 beginning on January 2, 2015, with final payment due on January 2, 2019.	125,344	185,292
Note payable, unsecured, interest rate of 7.47%, payable in annual installments of $17,624 beginning on September 1, 2012, with final payment due November 2017.	69,411	267,602
Note payable, unsecured, interest rate of 1.40% plus the one month LIBOR rate, payable in monthly installments of $33,333 beginning on April 1, 2012, with final payment due March 2022.	1,900,000	2,300,000
Note payable, unsecured, interest rate of 1.40% plus the one month LIBOR rate, payable in monthly installments of $20,833 beginning on July 18, 2014, with final payment due June 2024.	1,750,000	2,000,000
	25,882,145	31,498,893
Add: Unamortized premium	—	238,899
Less: Unamortized bond issuance costs	(422,714)	(413,742)
	$ 25,459,431	$ 31,324,050

The 2006 series bonds were refinanced with the proceeds from the 2017 series issuance. In connection with the issuance of 2010 and 2017 series of tax-exempt bonds by the state for the benefit of the University, the University has leased to the state, and the state has subleased to the University, the related buildings, land and equipment. The University does not receive rental payments under its leases to the state and is required only to make rental payments to the state at times and in amounts sufficient to pay principal and interest on the outstanding tax-exempt bonds under its leases from the state. The lease agreements expire upon repayment of all indebtedness secured by the leases.

Aggregate annual maturities of debt at June 30, 2017, are:

2018	$ 1,870,192
2019	1,837,090
2020	1,812,927
2021	1,756,323
2022	1,693,206
Thereafter	16,912,407
	$ 25,882,145

The debt agreements contain certain financial covenants. As of June 30, 2017 and 2016, the University is in compliance with these covenants.

The University charged $1,249,214 and $1,490,427 to interest expense for the years ended June 30, 2017 and 2016, respectively.

Note 8: Annuities and Trusts Payable

The University has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2017 and 2016, of $351,039 and $343,748, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2 percent to 8 percent.

The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. The portion of the trust attributable to the future interest of the University is recorded in the statements of activities as restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the University's statements of financial position. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates of 2 percent to 8 percent and applicable mortality tables. The University has recorded a liability at June 30, 2017 and 2016, of $1,279,248 and $1,387,989, respectively.

Note 9: Derivative Financial Instruments — Interest Rate Swap Agreements

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 its variable rate debt. On February 17, 2012, the University entered into a 10-year interest rate swap agreement with the intent of reducing the impact of changes in interest rates on its Huntington National Bank variable rate debt. The agreement provides for the University to receive interest from the counterparty at the USD-SIFMA Municipal Swap Index rate and to pay interest to the counterparty at a fixed rate of 2.95 percent on a notional amount of $1,900,000 and $2,300,000 and at June 30, 2017 and 2016, respectively. The difference between the rates, is settled monthly and is included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in other items.

The table below presents certain information regarding the University's interest rate swap agreements:

	2017	2016
Fair value of asset (liability) for interest rate swap agreements	$ 3,503	$ (56,528)
Statement of financial position location of fair value amount	Other assets	Accrued expenses
Gain (loss) recognized in change in net assets	$ 60,031	$ (42,306)
Location of gain (loss) recognized in change in net assets	Change in value of interest rate swap	Change in value of interest rate swap

Note 10: Internal Borrowings

During 2010, borrowings within the University were made from the endowment fund for capital projects. The borrowings from the endowment fund totaled $8,625,789 and $9,500,729 at June 30, 2017 and 2016, respectively. Approximately $4,000,000 of the internal loan is for renovations to the Engineering and Business Building. This loan is being amortized over 25 years, bears interest monthly at LIBOR plus 1.4 percent and will be repaid from unrestricted operations. The remainder of the loan is for the Wellness Center. This loan bears interest monthly at LIBOR plus 1.4 percent and will be repaid by specific contributions.

Note 11: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2017	2016
Trusts and gift annuities	$ 1,506,941	$ 1,452,541
Funds restricted for specific purposes	573,649	648,106
Unexpended property and equipment funds	424,332	394,563
Accumulated earnings on endowment	64,916,499	57,651,086
	$ 67,421,421	$ 60,146,296

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2017	2016
Investment in perpetuity, the income of which is expendable to support scholarships and operations	$ 58,742,372	$ 56,840,859
Annuity, life income and charitable remainder and perpetual trusts	9,100,833	8,663,002
	$ 67,843,205	$ 65,503,861

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:

	2017	2016
Purpose restrictions accomplished		
Educational program expenses	$ 154,631	$ 183,255
Property and equipment acquired and placed into service	45,050	—
Time restrictions expired, passage of time	124,925	—
	$ 324,606	$ 183,255

Note 12: Endowment

The University’s endowment consists of approximately 500 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 endowment assets are comprised of investments, beneficial interests, assets held in trust and the internal loan. The composition of net assets by type of endowment fund at June 30, 2017 and 2016, was:

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ —	$ 64,916,499	$ 67,843,205	$ 132,759,704

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (283,526)	$ 57,651,086	$ 65,503,861	$ 122,871,421

Changes in endowment net assets for the years ended June 30, 2017 and 2016, were:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (283,526)	$ 57,651,086	$ 65,503,861	$ 122,871,421
Investment return				
Investment income	2,057,788	—	—	2,057,788
Underwater transfer	283,526	(283,526)	—	—
Net appreciation	3,942,212	7,548,939	529,598	12,020,749
Total investment return	6,283,526	7,265,413	529,598	14,078,537
Contributions	—	—	1,809,746	1,809,746
Appropriation of endowment assets for expenditure	(6,000,000)	—	—	(6,000,000)
Endowment net assets, end of year	$ —	$ 64,916,499	$ 67,843,205	$ 132,759,704

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ —	$ 68,018,219	$ 64,630,538	$ 132,648,757
Investment return				
Investment income	6,709,973	—	—	6,709,973
Underwater transfer	(283,526)	283,526	—	—
Net appreciation (depreciation)	(659,973)	(10,650,659)	(172,466)	(11,483,098)
Total investment return	5,766,474	(10,367,133)	(172,466)	(4,773,125)
Contributions	—	—	1,045,789	1,045,789
Appropriation of endowment assets for expenditure	(6,050,000)	—	—	(6,050,000)
Endowment net assets, end of year	$ (283,526)	$ 57,651,086	$ 65,503,861	$ 122,871,421

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2017 and 2016, consisted of:

	2017	2016
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 67,843,205	$ 65,503,861
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 64,916,499	$ 57,651,086

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 $283,526 at June 30, 2016. There were no such deficiencies at June 30, 2017. 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 or for donor-specified periods. Under the University's policies, endowment assets are invested in a manner that is intended to produce results that shall exceed the Consumer Price Index plus 5 percent over a five-year moving period without undue exposure to investment risk. The University expects its endowment funds to provide an average rate of return of approximately 8 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 up to 5 percent, with Board approval, of its endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which expenditure is planned. In establishing this policy, the University considered the long-term expected return on its endowment and inflationary trends. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. 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 13: Related Party Transactions

The University currently maintains investments and trust asset accounts with institutions that also have representatives serving on the Board of Trustees of the University. Total investments and trust assets held with these institutions amount to approximately $43,680,000 and $25,170,000 as of June 30, 2017 and 2016, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately $202,290 and $188,043 for 2017 and 2016, respectively.

Note 14: Pension and Other Postretirement Benefit Plans

The University maintains a 403(b) defined-contribution plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the University's contributions to the plan. Pension expense was approximately $2,097,000 and $1,963,000 for 2017 and 2016, respectively.

The University has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. 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. The University expects to contribute $221,000 to the plan in 2018.

The University has a noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. 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. The University expects to contribute $81,384 to the plan in 2018.

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

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Change in benefit obligation				
Beginning of year	$ (1,756,006)	$ (1,909,598)	$ (1,387,034)	$ (1,591,261)
Service cost	(80,760)	(76,793)	(51,025)	(41,690)
Interest cost	(61,189)	(77,667)	(50,910)	(68,926)
Actuarial gain (loss)	7,114	(63,355)	(62,663)	267,193
Participant contributions	—	—	(124,983)	(166,555)
Benefit payments	250,896	371,406	176,183	214,205
End of year	(1,639,945)	(1,756,007)	(1,500,432)	(1,387,034)
Fair value of plan assets	—	—	—	—
Funded status at end of year	$ (1,639,945)	$ (1,756,007)	$ (1,500,432)	$ (1,387,034)

Liabilities recognized in accrued expenses in the statements of financial position:

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Accrued benefit liability	$ (1,639,945)	$ (1,756,007)	$ (1,500,432)	$ (1,387,034)

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

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Net loss	$ 374,705	$ 395,944	$ 376,541	$ 325,564
Prior service cost	134,542	223,402	—	—
	$ 509,247	$ 619,346	$ 376,541	$ 325,564

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2017	2016
Projected benefit obligation	$ 1,639,945	$ 1,756,007
Accumulated benefit obligation	$ 1,449,454	$ 1,587,098
Fair value of plan assets	$ —	$ —

Other significant balances and costs as of June 30 are:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Benefit costs	$ 244,934	$ 345,721	$ 113,621	$ 139,544
Employer contributions	250,896	371,406	51,200	47,650
Benefits paid	250,896	371,406	176,183	214,205

Components of net periodic benefit cost are:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Service cost	$ 80,760	$ 76,793	$ 51,025	$ 41,690
Interest cost	61,189	77,667	50,910	68,926
Amortization of prior service cost	88,860	181,560	—	—
Recognized net actuarial loss	14,125	9,701	11,686	28,928
	$ 244,934	$ 345,721	$ 113,621	$ 139,544

The estimated net loss and prior service cost obligation for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $14,000 and $92,000, respectively. The estimated net loss for the other defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $14,833.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Discount rate	4.00%	3.75%	4.00%	3.75%
Rate of compensation increase	2.00	1.75	N/A	N/A
Health care cost trend	N/A	N/A	7.00	7.00

Weighted-average assumptions used to determine benefit costs:

	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Discount rate	3.75%	4.50%	3.75%	4.50%
Rate of compensation increase	1.75	2.25	N/A	N/A
Health care cost rate	N/A	N/A	7.00	7.50

For measurement purposes, a 7.00 percent and 7.50 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017 and 2016. The rate was assumed to decrease gradually to 3.50 percent by the year 2023 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The University has determined that this benefit has no effect on the measurement of plan benefit obligations and periodic benefit costs.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2017:

	Pension Benefits	Other Benefits
2018	$ 221,318	$ 81,384
2019	166,917	92,588
2020	190,113	104,823
2021	177,597	90,973
2022	129,512	84,587
2023 – 2027	686,584	469,891

Note 15: Functional Expenses

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

	2017	2016
Educational		
Instruction	$ 23,495,056	$ 22,541,040
Academic support	3,303,275	3,270,766
Student services	9,993,385	9,538,642
Auxiliary enterprises	11,179,566	11,191,300
Total educational	47,971,282	46,541,748
Institutional support	7,750,147	8,038,776
Fundraising	1,742,405	1,745,260
	$ 57,463,834	$ 56,325,784

Note 16: Retirement Assistance Programs

In fiscal year 2013, the University recognized special charges in connection with the separation of employees due to two voluntary Retirement Assistance Programs (RAP) announced in the fall of 2012. In connection with the charges, 14 employees retired from the University in fiscal year 2013. Under the RAP, each eligible employee who volunteered to participate will receive either an amount equal to one year of their base pay to be disbursed over the next three years or a one-time bonus that was already paid out in 2013 depending on the program selected. In 2015, seven additional employees elected participation in the program, resulting in special charges of $850,495. The remaining unpaid accrual related to the voluntary retirement was $559,343 and $545,728 as of June 30, 2017 and 2016, respectively. The balance remaining at June 30, 2017, will be paid out over the next year.

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 and liabilities 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, 2017 and 2016:

	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)
Investments				
Money market funds	$ 13,400,507	$ 13,400,507	$ —	$ —
U.S. Treasury securities and government agency bonds	4,187,039	3,075,319	1,111,720	—
Corporate debt securities	8,965,851	—	8,550,133	415,718
Mortgage-backed securities, GSEs	606,784	—	606,784	—
Municipal bonds	252,585	—	252,585	—
Mutual funds				
Equity	30,369,847	30,369,847	—	—
Fixed income	11,018,532	11,018,532	—	—
International	12,989,970	12,989,970	—	—
Alternative funds	8,262,514	8,262,514	—	—
Common stocks				
Industrials	2,186,317	2,186,317	—	—
Consumer discretionary	1,051,498	1,051,498	—	—
Consumer staples	1,498,973	1,498,973	—	—
Energy	1,014,558	1,014,558	—	—
Financial	4,464,970	4,464,970	—	—
Materials	1,001,296	1,001,296	—	—
Information technology	4,217,599	4,217,599	—	—
Health care	2,376,109	2,376,109	—	—
Other	1,147,050	1,147,050	—	—
Alternative investments				
Limited partnerships (A)	6,604,777	—	—	—
Hedge funds (A)	3,525,073	—	—	—
Annuity and Life Income Funds Held in Trust				
Corporate debt securities	1,348,398	—	1,348,398	—
Money market funds	148,051	148,051	—	—
Mutual funds				
Value, growth and blended fixed income	4,797,972	4,797,972	—	—
Beneficial Interest in Perpetual Trusts	5,388,822	—	—	5,388,822
Beneficial Interest in Charitable Remainder Trusts	473,822	—	—	473,822
Interest Rate Swap Agreements	3,503	—	3,503	—

	2016			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 13,464,295	$ 13,464,295	$ —	$ —
U.S. Treasury securities and government agency bonds	4,122,339	3,067,410	1,054,929	—
Corporate debt securities	8,921,569	—	8,505,851	415,718
Mortgage-backed securities, GSEs	662,731	—	662,731	—
Municipal bonds	258,591	—	258,591	—
Mutual funds				
Equity	28,635,618	28,635,618	—	—
Fixed income	10,298,232	10,298,232	—	—
International	11,204,350	11,204,350	—	—
Alternative funds	2,676,194	2,676,194	—	—
Common stocks				
Industrials	2,457,305	2,457,305	—	—
Consumer discretionary	1,111,700	1,111,700	—	—
Consumer staples	850,432	850,432	—	—
Energy	1,312,575	1,312,575	—	—
Financial	4,292,762	4,292,762	—	—
Materials	1,075,444	1,075,444	—	—
Information technology	4,768,582	4,768,582	—	—
Health care	2,700,032	2,700,032	—	—
Other	1,424,950	1,424,950	—	—
Alternative investments				
Limited partnerships (A)	5,112,436	—	—	—
Hedge funds (A)	4,566,167	—	—	—
Annuity and Life Income Funds Held in Trust				
Corporate debt securities	1,148,104	—	1,148,104	—
Money market funds	137,923	137,923		—
Mutual funds				
Value, growth and blended fixed income	4,931,658	4,931,658	—	—
Beneficial Interest in Perpetual Trusts	5,103,701	—	—	5,103,701
Beneficial Interest in Charitable Remainder Trusts	544,898	—	—	544,898
Liabilities				
Interest rate swap agreements	42,306	—	42,306	—

(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 valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below. The University has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments and Annuity and Life Income Funds Held in Trust

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities and trusts are the responsibility of the Controller’s Office. The Controller’s Office obtains information 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 of America.

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 agreement, which approximates the fair value of the underlying assets of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial Interest in 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 interest is classified within Level 3 of the hierarchy.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market date and, therefore, are classified within Level 2 of the valuation 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	UMDF Note
Balance, July 1, 2015	$ 5,253,434	$ 957,152	$ 415,718
Total realized and unrealized losses included in change in net assets	(149,733)	(412,254)	—
Balance, June 30, 2016	5,103,701	544,898	415,718
Liquidation of trusts	—	(92,593)	—
Total realized and unrealized gains included in change in net assets	285,121	21,517	—
Balance, June 30, 2017	$ 5,388,822	$ 473,822	$ 415,718
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, 2017	$ 285,121	$ 21,517	$ —
June 30, 2016	$ (149,733)	$ (412,254)	$ —

The unrealized gains and losses for the perpetual trusts and charitable remainder trusts are included in revenue, gains and other support.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

	Fair Value at June 30, 2017	Valuation Technique	Unobservable Inputs	Range
Perpetual trusts	$ 5,388,822	Discounted cash flows	Discount rates Market return rates	3%-7%
Charitable remainder trusts	473,822	Discounted cash flows	Mortality assumptions Market return rates	4%-8%
UMDF note	415,718	Discounted cash flows	Discount rates	2%-5%

	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs	Range
Perpetual trusts	$ 5,103,701	Discounted cash flows	Discount rates Market return rates	3%-7%
Charitable remainder trusts	544,898	Discounted cash flows	Mortality assumptions Market return rates	4%-8%
UMDF note	415,718	Discounted cash flows	Discount rates	2%-5%

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement:

Beneficial Interest in Remainder Trusts and Perpetual Trusts

The significant unobservable inputs used in the fair value measurement of the University's beneficial interest in remainder trusts and perpetual trusts are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

UMDF Note

The significant unobservable input used in the fair value measurement of the University's UMDF Note is the discount rate. The discount rate is the market interest rate a market participant would require for a similar type instruments. Therefore, an increase in discount rate would result in a decrease in the fair value of the note.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 83 percent and 76 percent of contributions receivable were from one donor at June 30, 2017 and 2016, respectively.

Approximately 16 percent and 17 percent of contribution revenue resulted from one donor in 2017 and 2016, respectively.

Investments

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of financial position.

Claims

The University is subject to other 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.

Note 19: Subsequent Events

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