Auditor's Report and Consolidated Financial Statements

June 30, 2013 and 2012

UNIVERSITY of MOUNT UNION

Where Exceptional Begins

BKD LLP

CPAs & Advisors

University of Mount Union
June 30, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors
200 E. Main Street, Suite 700 // Fort Wayne, IN 46802-1900
260.460.4000 // fax 260.426.2235 // bkd.com

Independent Auditor's Report

Board of Trustees
University of Mount Union
Alliance, Ohio

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of University of Mount Union (University), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 University of Mount Union as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
October 30, 2013

University of Mount Union

Consolidated Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 11,167,234	$ 10,114,474
Accounts receivable, net of allowance; 2013 - $347,118, 2012 - $352,134	1,072,788	1,462,959
Contributions receivable, net of allowance of $325,000 in 2013 and 2012	4,117,509	4,164,841
Inventory	291,054	210,320
Loans receivable	3,403,329	3,463,485
Investments	118,716,380	108,568,041
Beneficial interest in perpetual trusts and charitable remainder trusts	12,978,736	11,840,048
Annuity and life income funds held in trust	8,398,790	8,303,779
Property and equipment, net	135,470,031	130,786,190
Other assets	627,782	662,594
Total assets	$ 296,243,633	$ 279,576,731
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 2,860,524	$ 1,886,035
Accrued expenses	4,949,021	4,159,706
Annuities and trusts payable	2,116,790	2,221,076
Deposits and other	1,205,901	925,157
Advances from government for student loans	3,098,069	3,060,192
Debt	34,910,023	35,652,378
Total liabilities	49,140,328	47,904,544
Net Assets		
Unrestricted	93,150,909	91,106,285
Temporarily restricted	85,969,458	74,257,837
Permanently restricted	67,982,938	66,308,065
Total net assets	247,103,305	231,672,187
Total liabilities and net assets	$ 296,243,633	$ 279,576,731

University of Mount Union

Consolidated Statements of Activities
Years Ended June 30, 2013 and 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Educational and general				
Student tuition and fees	$ 55,843,098	$ —	$ —	$ 55,843,098
Less financial aid	(24,317,598)	—	—	(24,317,598)
Net student tuition and fees	31,525,500	—	—	31,525,500
Gifts and private grants	3,803,084	3,863,326	816,597	8,483,007
Investment return designated for operations	5,250,000	—	—	5,250,000
Change in value of split-interest agreements	—	112,552	1,419,620	1,532,172
Other income	564,766	—	—	564,766
Total educational and general revenue	41,143,350	3,975,878	2,236,217	47,355,445
Auxiliary enterprises	13,849,568	—	—	13,849,568
Net assets released from restrictions	1,510,316	(1,510,316)	—	0
Total revenue, income and other support	56,503,234	2,465,562	2,236,217	61,205,013
Expenses				
Educational and general				
Instruction	15,212,005	—	—	15,212,005
Academic support	2,776,180	—	—	2,776,180
Operation and maintenance of plant	6,211,629	—	—	6,211,629
Student services	7,477,048	—	—	7,477,048
Institutional support	8,763,577	—	—	8,763,577
Depreciation	3,851,692	—	—	3,851,692
Total educational and general expenses	44,292,131	—	—	44,292,131
Auxiliary enterprises				
Debt service	1,638,011	—	—	1,638,011
Operations	6,315,482	—	—	6,315,482
Depreciation	1,053,198	—	—	1,053,198
	9,006,691	—	—	9,006,691
Total expenses	53,298,822	—	—	53,298,822
Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Other Items	3,204,412	2,465,562	2,236,217	7,906,191
Early retirement buyout	(1,031,417)	—	—	(1,031,417)
Investment return less amounts designated for operations	90,129	8,374,090	—	8,464,219
Change in value of interest rate swap	92,125	—	—	92,125
Change in donor restriction	(310,625)	871,969	(561,344)	0
Change in Net Assets	2,044,624	11,711,621	1,674,873	15,431,118
Net Assets, Beginning of Year	91,106,285	74,257,837	66,308,065	231,672,187
Net Assets, End of Year	$ 93,150,909	$ 85,969,458	$ 67,982,938	$ 247,103,305

See Notes to Financial Statements

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 53,821,941	$ —	$ —	$ 53,821,941
(23,061,302)	—	—	(23,061,302)
30,760,639	—	—	30,760,639
2,723,509	4,543,012	803,660	8,070,181
4,908,061	—	—	4,908,061
—	(146,051)	475,458	329,407
547,774	—	—	547,774
38,939,983	4,396,961	1,279,118	44,616,062
12,965,482	—	—	12,965,482
2,252,355	(2,252,355)	—	0
54,157,820	2,144,606	1,279,118	57,581,544
14,902,975	—	—	14,902,975
2,896,571	—	—	2,896,571
6,008,303	—	—	6,008,303
7,117,424	—	—	7,117,424
8,359,125	—	—	8,359,125
3,618,364	—	—	3,618,364
42,902,762	—	—	42,902,762
1,841,371	—	—	1,841,371
5,675,423	—	—	5,675,423
758,673	—	—	758,673
8,275,467	—	—	8,275,467
51,178,229	—	—	51,178,229
2,979,591	2,144,606	1,279,118	6,403,315
—	—	—	—
(491,699)	(6,776,890)	—	(7,268,589)
(86,143)	—	—	(86,143)
—	—	—	0
2,401,749	(4,632,284)	1,279,118	(951,417)
88,704,536	78,890,121	65,028,947	232,623,604
$ 91,106,285	$ 74,257,837	$ 66,308,065	$ 231,672,187

University of Mount Union

Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	$ 15,431,118	$ (951,417)
Items not requiring (providing) operating activities cash flows		
Realized and unrealized (gains) losses on investments	(11,283,453)	4,476,604
(Gain) loss on sale of property and equipment	6,619	(16,216)
Depreciation	4,904,890	4,377,037
Accumulated depreciation valuation adjustment	—	—
Amortization of bond premium	(15,926)	(15,926)
Change in allowance for uncollectible accounts and contributions receivable	(5,016)	(187,009)
Contributions restricted for long-term investment	(816,597)	(803,660)
Contributions received restricted for acquisition of long-lived assets	(3,547,253)	(2,292,103)
Changes in		
Accounts, loans and contributions receivable	502,675	3,146,205
Inventory	(80,734)	40,347
Other assets	34,812	(50,759)
Accounts payable and accrued expenses	988,129	(19,983)
Annuities and trusts payable	(104,286)	(497,751)
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	(1,233,699)	1,127,332
Deposits and other	280,744	(196,022)
Advances from government for student loans	37,877	36,777
Net cash provided by operating activities	5,099,900	8,173,456
Investing Activities		
Purchase of property and equipment	(7,915,461)	(4,192,732)
Purchase of investments	(64,553,548)	(58,296,751)
Proceeds from disposal of property and equipment	—	78,315
Proceeds from sales of investments	65,688,662	55,905,683
Net cash used in investing activities	(6,780,347)	(6,505,485)
Financing Activities		
Payments on bonds and notes payable	(1,630,643)	(5,673,502)
Proceeds from issuance of debt	—	4,000,000
Contributions restricted for long-term investment	816,597	803,660
Contributions received restricted for acquisition of long-lived assets	3,547,253	2,292,103
Net cash provided by financing activities	2,733,207	1,422,261
Increase in Cash and Cash Equivalents	1,052,760	3,090,232
Cash and Cash Equivalents, Beginning of Year	10,114,474	7,024,242
Cash and Cash Equivalents, End of Year	$ 11,167,234	$ 10,114,474
Supplemental Cash Flows Information		
Fixed assets in accounts payable	$ 775,675	$ 278,929
Cash paid for interest (net of amount capitalized)	1,552,008	1,735,556
Fixed asset additions financed by debt	904,214	—

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 subsidiary Raiders Corner, LLC. This subsidiary was formed in fiscal 2013 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, 2013 and 2012, cash equivalents consisted primarily of repurchase agreements.

At June 30, 2013, the University's interest-bearing and noninterest-bearing accounts exceeded federally insured limits by approximately $17,200,000.

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% 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.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

	2013	2012
Total interest expense incurred on borrowings for project	$ —	$ 42,668
Interest income from investment of proceeds of borrowings for project	—	(23)
Net interest cost capitalized	$ —	$ 42,645

	2013	2012
Interest capitalized	$ —	$ 42,645
Interest charged to expense	1,552,008	1,704,396
Total interest incurred	$ 1,552,008	$ 1,747,041

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 2010.

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 $2,614,500.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 12,658,425	$ 12,658,425	$ 10,166,472	$ 10,166,472
U.S. Treasury securities and government agency bonds	2,504,563	2,540,990	2,681,238	2,848,691
Corporate debt securities	12,769,451	13,051,103	13,081,575	13,462,771
Mortgage-backed securities, GSEs	1,108,791	1,145,326	1,624,181	1,680,526
Municipal bonds	263,039	243,841	465,537	465,766
Mutual funds				
Domestic equity mutual funds	27,378,572	28,728,242	14,594,643	13,773,110
Fixed income mutual funds	9,779,782	9,955,251	9,157,490	9,573,996
International and emerging market mutual funds	6,707,253	8,283,862	8,138,022	8,349,807

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Common stocks				
Industrials	$ 3,121,076	$ 4,184,497	$ 3,919,275	$ 4,391,364
Consumer discretionary	1,920,045	2,636,653	2,498,686	3,431,150
Consumer staples	781,076	1,008,797	1,668,496	1,994,357
Energy	3,065,492	3,453,057	3,431,832	3,291,256
Financial	4,992,358	6,589,037	5,394,758	6,185,829
Materials	1,461,634	1,332,704	2,093,663	2,258,906
Information technology	4,959,830	6,462,323	7,122,073	8,689,878
Health care	2,301,530	2,793,223	4,114,796	4,386,545
Other	1,074,378	1,143,745	1,505,871	1,664,741
Alternative investments				
Limited partnerships	3,676,074	5,743,069	4,676,091	5,880,430
Hedge funds	5,750,000	6,762,235	5,750,000	6,072,446
	$ 106,273,368	$ 118,716,380	$ 102,084,699	$ 108,568,041

Investments were held for the following purposes at June 30:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Endowment	$ 92,664,262	$ 105,014,700	$ 90,122,900	$ 96,583,841
Other	13,609,106	13,701,680	11,961,797	11,984,200
	$ 106,273,368	$ 118,716,380	$ 102,084,697	$ 108,568,041

Alternative Investments

The fair value of alternative investments (hedge funds) 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, 2013			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 6,762,235	None	Quarterly	65 – 90 days
Limited partnerships (B)	5,743,069	None	Monthly	7 days

	June 30, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 6,072,446	None	Quarterly	65 – 90 days
Limited partnerships (B)	5,880,430	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:

	2013	2012
Interest and dividend income	$ 2,430,767	$ 2,116,076
Net realized gains (losses) on investments reported at fair value	5,323,782	(716,786)
Net unrealized gains (losses) on investments reported at fair value	5,959,670	(3,759,818)
	$ 13,714,219	$ (2,360,528)

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

	2013	2012
Operating income	$ 5,250,000	$ 4,908,061
Other nonoperating income	8,464,219	(7,268,589)
	$ 13,714,219	$ (2,360,528)

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2013	2012
Due within one year	$ 1,191,887	$ 1,343,857
Due in one to five years	1,843,601	1,877,478
Due in more than five years	861,797	112,900
	3,897,285	3,334,235
Less		
Allowance for uncollectible contributions	(325,000)	(325,000)
Unamortized discount (2.00% - 8.00%)	(995,416)	(318,690)
	$ 2,576,869	$ 2,690,545

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 $1,540,640 and $1,474,296 as of June 30, 2013 and 2012, 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 $4,617,297 and $4,349,996, which represents the fair value of the trust assets at June 30, 2013 and 2012, 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 $8,361,439 and $7,490,052 at June 30, 2013 and 2012, respectively. The discount rates used to calculate the present value were 4% to 8%.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of the following:

	2013	2012
Land and land improvements	$ 19,453,317	$ 18,850,012
Buildings	159,211,445	155,444,958
Equipment and vehicles	17,393,531	17,450,765
Construction in progress	4,866,386	479,040
	200,924,679	192,224,775
Less accumulated depreciation and amortization	(65,454,648)	(61,438,585)
	$ 135,470,031	$ 130,786,190

Note 6: Line of Credit

The University has a $1,000,000 revolving bank line of credit with no expiration date. At June 30, 2013 and 2012, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Note 7: Debt

	2013	2012
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	$ 13,760,000	$ 14,180,000
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	11,105,000	11,400,000
Note payable, unsecured, interest rate of 4.86%, payable in monthly installments of $47,412 with a final balloon payment of $3,802,644 due in September 2016	4,878,010	5,200,162
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of $103,604 beginning on June 1, 2010, with final payment due June 2021	599,489	669,613

	2013	2012
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	$ 780,846	$ —
Note payable, unsecured, interest rate of 1.40% plus the 1 month LIBOR rate, payable in monthly installments of $33,333 beginning on April 1, 2012, with final payment due March 2022	3,500,000	3,900,000
	34,623,345	35,349,775
Add: Unamortized premium	286,678	302,603
	$ 34,910,023	$ 35,652,378

In connection with the issuance of the 2006 and 2010 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, 2013, are:

2014	$ 1,693,193
2015	1,763,608
2016	1,848,631
2017	5,351,388
2018	1,445,994
Thereafter	22,520,531
	$ 34,623,345

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, 2013 and 2012, of $530,369 and $535,539, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 4% to 8%.

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 4% to 8% and applicable mortality tables. The University has recorded a liability at June 30, 2013 and 2012, of $1,586,421 and $1,685,537, 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% on a notional amount of $3,500,000 and $3,900,000 at June 30, 2013 and 2012, 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.

	2013	2012
Fair value of (asset) liability for interest rate swap agreements	$ (5,983)	$ 86,143
Statement of financial position location of fair value amount	Accrued expenses	Accrued expenses
Gain/loss recognized in change in net assets	$ 92,125	$ (86,143)
Location of loss recognized in change in net assets	Change in value of interest rate swap agreement	Change in value of interest rate swap agreement

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 $11,659,408 and $12,119,829 at June 30, 2013 and 2012, 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 4.5% and will be repaid from unrestricted operations. The remainder of the loan is for the Wellness Center. This loan bears interest monthly at 5% 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:

	2013	2012
Unitrust and gift annuities	$ 4,142,288	$ 4,262,269
Funds restricted for specific purposes	696,934	786,675
Unexpended property and equipment funds	18,706,874	15,159,621
Accumulated earnings on endowment	62,423,362	54,049,272
	$ 85,969,458	$ 74,257,837

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2013	2012
Investment in perpetuity, the income of which is expendable to support scholarships and operations	$ 52,905,811	$ 52,688,905
Annuity, life income and charitable remainder and perpetual trusts	15,077,127	13,619,160
	$ 67,982,938	$ 66,308,065

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.

	2013	2012
Purpose restrictions accomplished		
Educational program expenses	$ 224,741	$ 194,610
Property and equipment acquired and placed into service	467,481	1,161,005
Time restrictions expired, passage of time	818,094	896,740
	$ 1,510,316	$ 2,252,355

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, 2013 and 2012, was:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (12,394)	$ 62,423,362	$ 67,982,938	$ 130,393,906

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (91,684)	$ 54,049,272	$ 66,308,065	$ 120,265,653

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (91,684)	$ 54,049,272	$ 66,308,065	$ 120,265,653
Investment return				
Investment income	2,308,218	—	—	2,308,218
Net appreciation	2,941,782	8,453,380	1,419,620	12,814,782
Net transfer for underwater endowments	79,290	(79,290)	—	0
Total investment return	5,329,290	8,374,090	1,419,620	15,123,000
Contributions	—	—	816,597	816,597
Change in donor restriction	—	—	(561,344)	(561,344)
Appropriation of endowment assets for expenditure	(5,250,000)	—	—	(5,250,000)
Endowment net assets, end of year	$ (12,394)	$ 62,423,362	$ 67,982,938	$ 130,393,906

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (62,250)	$ 60,826,162	$ 65,028,947	$ 125,792,859
Investment return				
Investment income	2,034,130	—	—	2,034,130
Net appreciation	2,873,931	(6,806,324)	475,458	(3,456,935)
Net transfer for underwater endowments	(29,434)	29,434	—	0
Total investment return	4,878,627	(6,776,890)	475,458	(1,422,805)

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	$ —	$ —	$ 803,660	$ 803,660
Appropriation of endowment assets for expenditure	(4,908,061)	—	—	(4,908,061)
Endowment net assets, end of year	$ (91,684)	$ 54,049,272	$ 66,308,065	$ 120,265,653

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

	2013	2012
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 67,982,938	$ 66,308,065
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 62,423,362	$ 54,049,272

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 $(12,394) and $(91,684) at June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity 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% 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% 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% 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% 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 $29,400,000 and $37,900,000 as of June 30, 2013 and 2012, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately $251,000 and $199,000 for 2013 and 2012, 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 $1,857,000 and $1,818,000 for 2013 and 2012, 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 $698,000 to the plan in 2013.

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 $137,000 to the plan in 2013.

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	
	2013	2012	2013	2012
Change in benefit obligation				
Beginning of year	$ (1,288,723)	$ (1,283,564)	$ (1,223,100)	$ (1,197,409)
Service cost	(65,785)	(64,623)	(36,348)	(34,251)
Interest cost	(48,260)	(61,172)	(47,375)	(57,355)
Actuarial gain (loss)	59,839	1,468	(108,059)	28,615
Special Termination Benefits	(150,523)	—	—	—
Participant changes	(538,246)	—	—	—
Participant contributions	—	—	(76,874)	(65,526)
Benefit payments	168,454	119,168	115,124	102,826
End of year	(1,863,244)	(1,288,723)	(1,376,632)	(1,223,100)
Fair value of plan assets	—	—	—	—
Funded status at end of year	$ (1,863,244)	$ (1,288,723)	$ (1,376,632)	$ (1,223,100)

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Accrued benefit liability	$ (1,863,244)	$ (1,288,723)	$ (1,376,632)	$ (1,223,100)

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Net loss	$ 168,638	$ 235,617	$ 548,161	$ 462,577
Prior service cost	559,137	24,373	—	—
	$ 727,775	$ 259,990	$ 548,161	$ 462,577

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

	2013	2012
Projected benefit obligation	$ 1,863,244	$ 1,288,723
Accumulated benefit obligation	$ 1,376,632	$ 1,223,100
Fair value of plan assets	$ 0	$ 0

Other significant balances and costs as of June 30 are:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Benefit costs	$ 124,667	$ 137,071	$ 106,198	$ 117,876
Employer contributions	168,454	119,168	38,250	37,300
Benefits paid	168,454	119,168	115,124	102,826

Components of net periodic benefit cost are:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Service cost	$ 65,785	$ 64,623	$ 36,348	$ 34,251
Interest cost	48,260	61,172	47,375	57,355
Amortization of prior service cost	3,482	3,482	—	—
Recognized net actuarial loss	7,140	7,794	22,475	26,270
	124,667	137,071	106,198	117,876
Special termination benefits	150,523	—	—	—
	$ 275,190	$ 137,071	$ 106,198	$ 117,876

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 $0 and $541,728, 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 $26,552.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2013	**2012**	**2013**	**2012**
Discount rate	4.75%	4.00%	4.75%	4.00%
Rate of compensation increase	2.75	2.00	N/A	N/A
Health care cost trend	N/A	N/A	8.50	9.00

Weighted-average assumptions used to determine benefit costs:

	Pension Benefits		Other Benefits	
	2013	**2012**	**2013**	**2012**
Discount rate	4.00%	5.00%	4.00%	5.00%
Rate of compensation increase	2.00	3.00	N/A	N/A
Health care cost rate	N/A	N/A	9.00	9.50

For measurement purposes, a 9.00 and 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013 and 2012. The rate was assumed to decrease gradually to 3.50% 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, 2013:

	Pension Benefits	Other Benefits
2014	$ 698,000	$ 137,000
2015	148,000	113,000
2016	149,000	113,000
2017	84,000	84,000
2018	86,000	81,000
2019 – 2023	640,000	467,000

Note 15: Functional Expenses

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

	2013	2012
Educational		
Instruction	$ 20,658,947	$ 19,321,863
Academic support	3,648,802	3,748,216
Student services	9,766,307	9,093,579
Auxiliary enterprises	11,353,484	10,503,630
Total educational	45,427,540	42,667,288
Institutional support	7,399,928	7,113,616
Fundraising	1,502,771	1,397,325
	$ 54,330,239	$ 51,178,229

Note 16: Retirement Assistance Programs

In fiscal year 2013, the University recognized special charges of $1,031,417 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. As of June 30, 2013, the remaining unpaid accrual related to the voluntary retirement was $877,941. The balance remaining at June 30, 2013, will be paid out over the next three years.

Note 17: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012:

	2013			
		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	$ 12,658,425	$ 12,658,425	$ —	$ —
U.S. Treasury securities and government agency bonds	2,540,990	405,692	2,135,298	—
Corporate debt securities	13,051,103	—	12,635,385	415,718
Mortgage-backed securities, GSEs	1,145,326	—	1,145,326	—
Municipal bonds	243,841	—	243,841	—
Mutual funds				
Equity	28,728,243	28,728,243	—	—
Fixed income	9,955,251	9,955,251	—	—
International	8,283,862	8,283,862	—	—
Common stocks				
Industrials	4,184,497	4,184,497	—	—
Consumer discretionary	2,636,653	2,636,653	—	—
Consumer staples	1,008,797	1,008,797	—	—
Energy	3,453,057	3,453,057	—	—
Financial	6,589,037	6,589,037	—	—
Materials	1,332,704	1,332,704	—	—
Information technology	6,462,323	6,462,323	—	—
Health care	2,793,223	2,793,223	—	—
Other	1,143,745	1,143,745	—	—
Alternative investments				
Limited partnerships	5,743,069	—	5,743,069	—
Hedge funds	6,762,235	—	6,762,235	—

	2013			
		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)
Annuity and life income funds held in trust				
Corporate debt securities	$ 1,670,864	$ —	$ 1,670,864	$ —
Money market funds	113,263	113,263	—	—
Common stocks	668,838	668,838	—	—
Mutual funds				
Value, growth and blended fixed income	5,927,899	5,927,899	—	—
Beneficial interest in perpetual trusts	4,617,297	—	—	4,617,297
Beneficial interest in charitable remainder trusts	8,361,439	—	—	8,361,439
Liabilities				
Interest rate swap agreements	(5,983)	—	(5,983)	—

	2012			
		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	$ 10,166,472	$ 10,166,472	$ —	$ —
U.S. Treasury securities and government agency bonds	2,848,691	754,667	2,094,024	—
Corporate debt securities	13,462,771	—	13,047,053	415,718
Mortgage-backed securities, GSEs	1,680,526	—	1,680,526	—

	2012			
		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)
Municipal bonds	$ 465,766	$ —	$ 465,766	$ —
Mutual funds				
Equity	13,773,110	13,773,110	—	—
Fixed income	9,573,996	9,573,996	—	—
International	8,349,807	8,349,807	—	—
Common stocks				
Industrials	4,391,364	4,391,364	—	—
Consumer discretionary	3,431,150	3,431,150	—	—
Consumer staples	1,994,357	1,994,357	—	—
Energy	3,291,256	3,291,256	—	—
Financial	6,185,829	6,185,829	—	—
Materials	2,258,906	2,258,906	—	—
Information technology	8,689,878	8,689,878	—	—
Health care	4,386,545	4,386,545	—	—
Other	1,664,741	1,664,741	—	—
Alternative investments				
Limited partnerships	5,880,430	—	5,880,430	—
Hedge funds	6,072,446	—	6,072,446	—
Annuity and life income funds held in trust				
Corporate debt securities	1,382,397	—	1,382,397	—
Money market funds	287,986	287,986	—	—
Common stocks	831,950	831,950	—	—
Mutual funds				
Value, growth and blended fixed income	5,801,446	5,801,446	—	—
Beneficial interest in perpetual trusts	4,349,996	—	—	4,349,996
Beneficial interest in charitable remainder trusts	7,490,052	—	—	7,490,052
Liabilities				
Interest Rate Swap Agreements	(86,143)	—	(86,143)	—

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, 2013. 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.

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

Fair value determinations for Level 3 measurements of securities are the responsibility of the Controller’s office. The Controller’s office 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 data 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, 2011	$ 4,429,309	$ 7,161,381	$ 415,718
Total realized and unrealized gains and (losses) included in change in net assets	(79,313)	328,671	—
Balance, June 30, 2012	4,349,996	7,490,052	415,718
Total realized and unrealized gains and (losses) included in change in net assets	267,301	871,387	—
Balance, June 30, 2013	$ 4,617,297	$ 8,361,439	$ 415,718
Total gains or (losses) for the period included in change in net assets attributable to the change in unrealized gains or (losses) related to assets still held at the reporting date			
June 30, 2013	$ 267,301	$ 871,387	$ 0
June 30, 2012	$ (79,313)	$ 328,671	$ 0

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 table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Inputs	Range
Perpetual Trusts	$ 4,617,297	Discounted cash flows	Discount rates Market return rates	3%-7%
Charitable Remainder Trusts	8,361,439	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.

Fair Value of Financial Instruments

The following table presents estimated fair values of the University's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012.

		Fair Value Measurements Using		
	Carrying Amount	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2013				
Financial assets:				
Cash and cash equivalents	$ 11,167,234	$ 11,167,234	$ —	$ —
Contributions Receivable	4,117,509	—	—	4,117,509
Loans Receivable	3,403,329	—	—	3,403,329
Investments	118,716,380	89,635,508	28,665,154	415,718
Beneficial Interest in Perpetual Trusts	4,617,297	—	—	4,617,297

	Carrying Amount	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)
Beneficial Interest in Charitable Remainder Trusts	$ 8,361,439	$ —	$ —	$ 8,361,439
Annuity and life income funds held in trusts	8,398,790	6,727,926	1,670,864	—
Financial liabilities				
Debt	34,910,023	—	34,910,023	—
Advances from Government	3,098,069	—	—	3,098,069
Annuities and trusts payable	2,116,790	—	—	2,116,790
June 30, 2012				
Financial assets				
Cash and cash equivalents	$ 10,114,474	$ 10,114,474	$ —	$ —
Contributions Receivable	4,164,841	—	—	4,164,841
Loans Receivable	3,463,485	—	—	3,463,485
Investments	108,568,041	78,912,078	29,240,245	415,718
Beneficial Interest in Perpetual Trusts	4,349,996	—	—	4,349,996
Beneficial Interest in Charitable Remainder Trusts	$ 7,490,052	$ —	$ —	$ 7,490,052
Annuity and life income funds held in trusts	8,303,779	6,921,382	1,382,397	—
Financial liabilities				
Debt	35,652,378	—	35,652,378	—
Advances from Government	3,060,192	—	—	3,060,192
Annuities and trusts payable	2,221,076	—	—	2,221,076

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value. Further evaluation of the fair value of these financial assets and liabilities utilizing the methods described below did not result in a significant difference from the carrying amount. Thus, the carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated by discounting the expected future cash flows using the risk-free rate of return at the time of contribution.

Loans Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar loans would be written for the same remaining maturities.

Debt

Fair value is estimated based on the borrowing rates currently available to the University for debt with similar terms and maturities.

Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

Deposits and Other and Advances From Government for Student Loans

The carrying value approximates fair value.

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 47% and 45% of contributions receivable were from two donors at June 30, 2013 and 2012, respectively.

Approximately 27% and 60% of contribution revenue resulted from two donors and one donor in 2013 and 2012, 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.