

**CAPITAL UNIVERSITY**  
Columbus, Ohio

**FINANCIAL STATEMENTS**  
June 30, 2017 and 2016

CAPITAL UNIVERSITY  
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FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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## Independent Auditor's Report

To the Board of Trustees  
Capital University  
Columbus, Ohio

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

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital University as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Meloney + Novotny LLC*

Cleveland, Ohio  
November 2, 2017

CAPITAL UNIVERSITY  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,094,855	\$ 7,451,718
Accounts receivable		
Students, less allowance for \$849,070 and \$906,440 in 2017 and 2016, respectively	1,987,794	2,014,045
Other	623,384	820,374
Prepaid expenses and other assets	859,449	964,935
Short term investments	21,110,792	19,115,564
Pledges receivable	485,131	1,073,617
Student notes receivable, less allowance of \$65,500 in 2017 and 2016	4,760,330	5,030,866
Contributions receivable from remainder trusts	104,018	115,615
Beneficial interests in perpetual trusts	5,286,858	4,928,687
Long-term investments	75,996,099	69,993,146
Land, buildings and equipment, less accumulated depreciation and amortization of \$104,336,736 and \$97,196,863 in 2017 and 2016, respectively	<u>110,841,377</u>	<u>108,377,068</u>
Total assets	<u>\$ 229,150,087</u>	<u>\$ 219,885,635</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 5,602,400	\$ 6,892,525
Accrued liabilities	4,718,870	5,239,634
Student advance deposits	372,383	381,730
Deferred tuition revenue	2,800,921	2,852,366
Agency funds held for others	217,114	247,302
Note and Mortgage payable	876,767	71,009
Capital lease obligations payable	32,174,552	27,288,627
Annuities payable	745,831	808,782
Postretirement benefit obligation	1,284,165	1,414,190
Advances from government for student loans	<u>5,475,816</u>	<u>5,793,030</u>
Total liabilities	54,268,819	50,989,195
Net assets		
Unrestricted	102,729,552	102,336,054
Temporarily restricted	22,456,842	18,641,061
Permanently restricted	<u>49,694,874</u>	<u>47,919,325</u>
Total net assets	<u>174,881,268</u>	<u>168,896,440</u>
Total liabilities and net assets	<u>\$ 229,150,087</u>	<u>\$ 219,885,935</u>

See accompanying notes to financial statements

CAPITAL UNIVERSITY  
STATEMENTS OF ACTIVITIES  
Year ended June 30, 2017 with comparative 2016 totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<b>Revenue, gains and other support</b>					
Student tuition and fees	\$ 97,103,886	\$ -	\$ -	\$ 97,103,886	\$ 96,725,704
Unfunded student financial aid	(49,299,253)	-	-	(49,299,253)	(48,310,582)
Funded student financial aid	<u>(2,045,325)</u>	<u>-</u>	<u>-</u>	<u>(2,045,325)</u>	<u>(1,827,194)</u>
	45,759,308	-	-	45,759,308	46,587,928
Private gifts and grants	1,194,310	1,667,204	1,474,015	4,335,529	5,812,487
Government grants and contracts	112,488	1,649,087	-	1,761,575	1,574,763
Investment income	1,741,356	2,106,706	-	3,848,062	3,550,343
Other	1,087,856	306,007	-	1,393,863	1,327,831
Auxiliary enterprises	14,316,874	-	-	14,316,874	14,264,628
Net assets released from restrictions	<u>4,926,518</u>	<u>(4,926,518)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>69,138,710</u>	<u>802,486</u>	<u>1,474,015</u>	<u>71,415,211</u>	<u>73,117,980</u>
<b>Expenses</b>					
Instructional	32,063,771	-	-	32,063,771	31,538,818
Academic support	4,216,028	-	-	4,216,028	4,226,045
Student services	12,981,304	-	-	12,981,304	13,039,995
Institutional support	13,963,563	-	-	13,963,563	14,236,235
Auxiliary expenses	<u>9,598,987</u>	<u>-</u>	<u>-</u>	<u>9,598,987</u>	<u>9,108,207</u>
Total expenses	<u>72,823,653</u>	<u>-</u>	<u>-</u>	<u>72,823,653</u>	<u>72,149,300</u>
Change in net assets before other activities	(3,684,943)	802,486	1,474,015	(1,408,442)	968,680
<b>Other activities</b>					
Investment earnings	4,039,139	3,105,265	416,553	7,560,957	(6,587,760)
Actuarial change in annuity liability and maturities	(38,415)	(91,970)	(115,019)	(245,404)	(83,395)
Postretirement benefit obligation related changes other than periodic costs	22,158	-	-	22,158	163,277
Gain on sale of assets	55,559	-	-	55,559	419,476
Total other activities	<u>4,078,441</u>	<u>3,013,295</u>	<u>301,534</u>	<u>7,393,270</u>	<u>(6,088,402)</u>
<b>Change in net assets</b>	393,498	3,815,781	1,775,549	5,984,828	(5,119,722)
Net assets at beginning of year	<u>102,336,054</u>	<u>18,641,061</u>	<u>47,919,325</u>	<u>168,896,440</u>	<u>174,016,162</u>
Net assets at end of year	<u>\$102,729,552</u>	<u>\$ 22,456,842</u>	<u>\$ 49,694,874</u>	<u>\$174,881,268</u>	<u>\$168,896,440</u>

See accompanying notes to financial statements

CAPITAL UNIVERSITY  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
<b>Revenue, gains and other support</b>				
Student tuition and fees	\$ 96,725,704	\$ -	\$ -	\$ 96,725,704
Unfunded student financial aid	(48,310,582)	-	-	(48,310,582)
Funded student financial aid	<u>(1,827,194)</u>	<u>-</u>	<u>-</u>	<u>(1,827,194)</u>
	46,587,928	-	-	46,587,928
Private gifts and grants	1,110,404	1,951,926	2,750,157	5,812,487
Government grants and contracts	68,623	1,506,140	-	1,574,763
Investment income	1,617,388	1,932,955	-	3,550,343
Other	996,185	331,646	-	1,327,831
Auxiliary enterprises	14,264,628	-	-	14,264,628
Net operating assets released from restrictions	<u>5,124,737</u>	<u>(5,124,737)</u>	<u>-</u>	<u>-</u>
Total revenue	69,769,893	597,930	2,750,157	73,117,980
<b>Expenses</b>				
Instructional	31,538,818	-	-	31,538,818
Academic support	4,226,045	-	-	4,226,045
Student services	13,039,995	-	-	13,039,995
Institutional support	14,236,235	-	-	14,236,235
Auxiliary expenses	<u>9,108,207</u>	<u>-</u>	<u>-</u>	<u>9,108,207</u>
Total expenses	<u>72,149,300</u>	<u>-</u>	<u>-</u>	<u>72,149,300</u>
Change in net assets before other activities	(2,379,407)	597,930	2,750,157	968,680
<b>Other activities</b>				
Investment earnings	(4,489,954)	(1,799,540)	(298,266)	(6,587,760)
Actuarial change in annuity liability and maturities	(34,305)	13,238	(62,328)	(83,395)
Postretirement benefit obligation related changes other than periodic costs	163,277	-	-	163,277
Gain on sale of assets	419,476	-	-	419,476
Total other activities	<u>(3,941,506)</u>	<u>(1,786,302)</u>	<u>(360,594)</u>	<u>(6,088,402)</u>
<b>Change in net assets</b>	(6,320,913)	(1,188,372)	2,389,563	(5,119,722)
Net assets at beginning of year	<u>108,656,967</u>	<u>19,829,433</u>	<u>45,529,762</u>	<u>174,016,162</u>
Net assets at end of year	<u>\$102,336,054</u>	<u>\$ 18,641,061</u>	<u>\$ 47,919,325</u>	<u>\$168,896,440</u>

See accompanying notes to financial statements

CAPITAL UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 5,984,828	\$ (5,119,722)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	7,262,653	7,171,069
Realized and unrealized (gains) losses on investments	(9,300,479)	4,757,576
Gifts for permanently restricted purposes	(1,474,015)	(2,750,157)
(Gain) loss on disposal of assets	(55,558)	(419,476)
Postretirement benefit obligation related changes other than periodic costs	(22,158)	(163,277)
Change in operating assets and liabilities		
Accounts receivable	223,241	200,407
Pledges receivable	588,486	894,358
Prepaid expenses and other assets	105,486	168,504
Contributions receivable from remainder trusts	11,597	13,954
Accounts payable and accrued liabilities	(1,810,889)	3,493,928
Student advance deposits	(9,347)	(6,846)
Deferred tuition revenue	(51,445)	(16,286)
Agency funds held for others	(30,188)	50,278
Annuities payable	(62,951)	(105,269)
Postretirement benefit obligation	(107,867)	(179,669)
Advances from government for student loans	<u>(317,214)</u>	<u>(127,051)</u>
Net cash from operating activities	934,180	7,862,321
<b>Cash flows from investing activities</b>		
Capital expenditures	(9,835,026)	(15,352,133)
Net proceeds from sale of assets	175,147	714,694
Change in student notes receivable	270,536	286,738
Net (purchases) sales of investments	<u>944,127</u>	<u>(122,756)</u>
Net cash from investing activities	(8,445,216)	(14,473,457)
<b>Cash flows from financing activities</b>		
Proceeds on issuance of long-term debt	6,840,150	-
Payments on long-term debt	(1,159,992)	(1,077,959)
Gifts for permanently restricted purposes	<u>1,474,015</u>	<u>2,750,157</u>
Net cash from financing activities	<u>7,154,173</u>	<u>1,672,198</u>
Net change in cash and cash equivalents	(356,863)	(4,938,938)
Cash and cash equivalents at beginning of year	<u>7,451,718</u>	<u>12,390,656</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 7,094,855</u>	<u>\$ 7,451,718</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 498,698	\$ 342,931
Donated assets	-	319,000

See accompanying notes to financial statements.



CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

Organization: Capital University (“the University”), a privately endowed educational institution, derives its income from student tuition and fees, investments, gifts and grants, operation of residence and dining halls, and various related activities.

The following is a summary of significant accounting policies followed in the preparation of the accompanying financial statements.

Basis of presentation: Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Use of Estimates: Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The University considers financial instruments with a maturity of three months or less when purchased to be cash equivalents. Deposits in banks are insured by an agency of the federal government up to \$250,000 at June 30, 2017 and 2016.

Investments: Investments are carried at fair value and investments received by gifts are recorded at fair value at the date of gift. Realized investment gains and losses are calculated and recorded on a first-in, first-out basis and represent the difference between the proceeds on sales of investments and their cost when acquired or market value at the end of the preceding year. Investment return includes interest, dividends, and both realized and unrealized gains and losses.

Accounting principles require that net appreciation (both realized and unrealized) on endowment funds whose income is unrestricted as to use, be reported as temporarily restricted until deemed appropriated by the University for spending. Accordingly, net realized and unrealized appreciation on endowment funds is classified in the accompanying financial statements as part of temporarily restricted net assets based on restrictions established by donors and state law.

The University endowment consists of assets which are separately invested to provide income to support education and related activities, either as a result of donor imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return.

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Alternative investments, for which there is no ready market, are valued at fair value as estimated by management. To estimate fair value, management may rely on valuations reported by the general partners of such investments and/or the College's independent investment advisor. Because of the inherent uncertainty of valuation in the absence of readily ascertainable market values, the estimated values of those investments may differ from the values that would have been used had a ready market existed for such investments or if the investments were realized, and the differences could be material. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis.

Trusts Held by Others: Contributions from remainder trusts represent the present value of the estimated amounts to be received in the future by the University for charitable remainder trusts for which the University does not serve as the trustee and are reported at fair value based on the present value of the underlying payments. Beneficial interests in perpetual trusts represent the present value of the estimated income the University will receive in the future from perpetual trusts for which third parties serve as the trustees.

Accounts and Student Notes Receivable: Accounts receivable primarily consists of tuition and fee charges to students and are carried at face value, less an allowance for doubtful accounts. Interest is not charged by the University on student accounts receivable. Student notes receivable primarily includes amounts due under the federally funded loan programs. The University uses the allowance method to estimate uncollectible receivables in these two categories. The allowances are based on prior experience and management's analysis of specific receivables.

Land, Buildings, Equipment, and Depreciation and Amortization: Land, buildings, and equipment, including equipment under capital leases, are stated at cost at date of acquisition. The University typically capitalizes acquisitions that exceed \$5,000 and have a useful life greater than one year. Depreciation and amortization on physical plant and equipment is recorded on a straight-line basis beginning in the year following acquisition over the estimated useful life for each major category of assets. These estimated useful lives are summarized in the following table:

Improvements other than buildings	20 years
Real estate held for future expansion	20 years
Buildings	30 - 70 years
Building improvements	20 years
Equipment	5 - 10 years

The carrying value of the University's long-lived assets is reviewed to determine if facts or circumstances suggest that the assets may be impaired or that the remaining useful, depreciable life may need to be changed. The University considers internal and external factors related to each asset, including future asset utilization and business climate. If these factors indicate that the asset will not be recoverable, the carrying value will be adjusted down to the estimated fair value, if less than book value. As of June 30, 2017 and 2016, management believes no impairments existed.

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions and Expiration of Donor-Imposed Restrictions: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. The donation of assets other than cash are reported at fair value at the date of the donation. Contributions of cash or other assets to be used to acquire land, buildings, and equipment without such donor stipulations are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. For the years ended June 30, 2017 and 2016, the University released \$4,926,518 and \$5,124,737, respectively, in restricted assets for the educational and general purposes of the University.

Other Activities: The University has defined other activities to include the following:

Investment earnings: Endowment income and realized gains (losses) in excess of the spending policy and unrealized gains (losses) on endowments and other investments not available for current operations

Actuarial adjustment to split-interest agreements: Adjustments to split-interest liabilities on life income agreements resulting from changes in the life expectancy, discount rates and other assumptions.

Postretirement benefit obligation changes: This represents actuarial changes to the university's postretirement obligation other than periodic benefit costs.

Revenue Recognition: Revenue is recognized over the period during which related educational and other services are rendered. Student tuition and fees are recognized when earned over the period during which related services are rendered. Unearned student tuition and fees are reflected as deferred revenue. Funds from federal and state grants are reflected as deferred revenue until such funds are expended for the grant purpose.

Federal Income Tax: The Internal Revenue Service has ruled that Capital University is a tax-exempt educational institution under §501(a) of the Internal Revenue Code as an organization described in §501(c)(3).

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting principles generally accepted in the United States of America prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2017 or 2016.

The University would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The University has no amounts accrued for interest or penalties for the year ended June 30, 2017 or 2016. The University is no longer subject to examination by taxing authorities for years before 2014. The University does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Fair Value of Financial Instruments: Cash and cash equivalents, accounts receivable from students, and accounts payable approximate fair value because of the short maturity of these instruments. Student notes receivable consist primarily of student loans through a government loan program. The notes receivable are not readily marketable. The University has estimated their fair value to be the carrying value. Pledges receivable approximate fair value because of the present value discount included in the carrying amount. Beneficial interests in perpetual trusts approximate fair value because the receivables are based upon the fair value of the assets carried in the applicable trusts. Investments are carried at fair value based upon quoted market prices. The carrying amount of the annuity liabilities approximates fair value based on the life expectancies and the present value discount. The carrying value of accrued liabilities and deferred revenue approximates fair value due to the short-term nature of the obligations. The carrying values of all of the University's financial instruments approximated their fair values at June 30, 2017 and 2016, except the University's fixed rate debt obligations. The fair value of the University's fixed rate debt obligations is estimated based on the quoted market prices for the same or similar issues. The fair value of fixed rate debt obligations at June 30, 2017 and 2016 was approximately \$3,540,300 and \$3,780,600.

Reclassifications: Prior year amounts have been reclassified to be consistent with the presentation in the current year financial statements. These reclassifications had no effect on net assets or the changes in net assets

New Accounting Standards: In prior years, the University presented unamortized debt issuance costs as noncurrent assets and amortized them using the straight-line method over the term of the related debt. As of July 1, 2015, the University has retrospectively adopted a newly required accounting standard that requires the University to present debt issuance costs as a reduction of the principal balance of the related debt and reflect these costs as additional interest expense using the effective interest rate method that results in a constant effective yield over the life of the related debt. The University determined the amortizing debt issuance costs using the straight-line method over the term of the debt approximates the effective interest rate method. The effects of the retrospective adoption on the 2016 financial statements were as follows:

Elimination of other assets	\$ 126,973
Reduction in the long-term bonds payable	126,973
Increase in interest expense	11,525
Decrease in depreciation and amortization	11,525

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2017 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2017. Management has performed this analysis through November 2, 2017, the date the financial statements were available to be issued.

**NOTE 2 – INVESTMENTS**

Investments consist of the following:

	<u>2017</u>	<u>2016</u>
U.S. government and government agencies	\$ 2,210,536	\$ 2,644,667
Corporate bonds	3,521,799	3,776,611
Mutual funds – equities	60,290,390	52,744,746
Mutual funds – bonds	15,144,568	15,035,237
Invested cash	3,663,116	3,200,320
Hedge funds of funds	7,628,854	7,174,004
Private equity funds	<u>4,647,628</u>	<u>4,533,125</u>
	<u>\$ 97,106,891</u>	<u>\$ 89,108,710</u>

For the years ending June 30, 2017 and 2016, total investments shown above included short-term investments of \$21,110,792 and \$19,115,564, respectively.

The composition of investment return is as follows:

	<u>2017</u>	<u>2016</u>
Investment income (interest and dividends)	\$ 2,452,390	\$ 2,055,111
Investment expenses	(343,850)	(334,952)
Net realized gain	928,347	3,680,357
Net unrealized gain (loss)	<u>8,372,132</u>	<u>(8,437,933)</u>
Total investment return	11,409,019	(3,037,417)
Investment return included in revenues	<u>(3,848,062)</u>	<u>(3,550,343)</u>
Investment return included in other activities	<u>\$ 7,560,957</u>	<u>\$ (6,587,760)</u>

Accounting principles define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the University's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of equity and bond mutual funds, U.S. government and government agency obligations, and most corporate bonds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Funds of funds investments have observable inputs and market activity that allow for pricing based on the underlying market prices of the items in the fund (market approach), adjusted information developed by management for historical and current performance of the underlying funds, liquidity and credit premiums required by a market participant (income approach) and financial trend analysis with respect to the overall fund compared to benchmark performance ratios (Level 2 inputs). The University owns two hedge funds of funds that fall in this category and have the same manager. These managers have strategies which are: 1) to maximize risk-adjusted returns and achieve low correlation to the equity markets, and 2) to achieve superior risk-adjusted returns with low volatility and low correlation to both the equity and fixed income markets by investing in a diversified group of pooled investment vehicles. The funds may invest in investment vehicles domiciled both within and outside the United States. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

Funds can be redeemed within two months of written notice, provided the investor has owned the funds for more than one year, which the University has as of June 30, 2017. There were no unfunded commitments at June 30, 2017 and 2016.

For other investments for which there is no active market, generally referred to as "alternative investments", the University uses other methods for valuing these securities. Information such as historical and current performance of the underlying assets, cash flow projections, liquidity and credit premiums required by a market participant (income approach), and financial trend analysis with respect to the individual fund manager, are utilized in determining individual security valuations (market approach). Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). This includes the University's investments in private equity funds. Private equity funds include eight separate funds managed by the same manager whose strategy is realization of long-term total returns by investing in a diversified group of pooled investment funds. Redemption policies of each of these funds do not allow the University to withdraw any portion of its capital accounts or redeem any shares prior to the termination of the fund without the consent of the fund managers, which is not expected to be granted. The funds are expected to terminate from 7 to 14 years from the University's June 30, 2017 fiscal year end. Currently, and through the funds' terminations, the University expects to receive periodic distributions from the liquidation of the funds' underlying assets. Unfunded commitments related to these investments were \$5,573,933 and \$3,106,300 at June 30, 2017 and 2016, respectively.

The fair value of beneficial interests in perpetual trusts is based on quoted prices of the underlying assets that are held by trustees. Due to restrictions on these assets that do not allow the University redemption rights, fair value is deemed to be based on Level 3 inputs. The University owns a mortgage backed investment in a bond for which fair value is determined based on methods similar to alternative investments and that has limited trading activity (Level 3 inputs).

The fair value of the interest rate swap is based on the projected London Interbank Offered Rate ("LIBOR") for the duration of the swap; values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument (Level 2 inputs).

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 2 – INVESTMENTS** (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and 2016, are summarized below:

	Fair Value Measurements Using Quoted Prices in		
	Active Markets for Identical Assets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
June 30, 2017:			
Assets			
U.S. government and government agencies	\$ 2,210,536	\$ -	\$ -
Corporate bonds	3,395,957	-	125,842
Mutual funds - equities	60,290,390	-	-
Mutual funds – bonds	15,144,568	-	-
Hedge funds of funds	-	7,628,854	-
Private equity funds	-	-	4,647,628
Beneficial interests in perpetual trusts	-	-	5,286,858
Liabilities			
Interest rate swap	-	454,459	-

	Fair Value Measurements Using Quoted Prices in		
	Active Markets for Identical Assets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
June 30, 2016:			
Assets			
U.S. government and government agencies	\$ 2,644,667	\$ -	\$ -
Corporate bonds	3,639,089	-	137,522
Mutual funds - equities	52,744,746	-	-
Mutual funds – bonds	15,035,237	-	-
Hedge funds of funds	-	7,174,004	-
Private equity funds	-	-	4,533,125
Beneficial interests in perpetual trusts	-	-	4,928,687
Liabilities			
Interest rate swap	-	884,279	-

(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 2 – INVESTMENTS (Continued)**

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017 and 2016:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Private Equity Funds	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2016	\$ 4,533,125	\$ 4,928,687	\$ 137,522	\$ 9,599,334
Interest and dividend	-	108,120	-	108,120
Total gains or losses (realized/unrealized) included in earnings				
Other changes in fair value	-	204,200	(2,233)	201,967
Gains (losses)	363,948	292,820	-	656,768
Purchases	597,966	-	-	597,966
Sales	<u>(847,411)</u>	<u>(246,969)</u>	<u>(9,447)</u>	<u>(1,103,827)</u>
Ending balance, June 30, 2017	<u>\$ 4,647,628</u>	<u>\$ 5,286,858</u>	<u>\$ 125,842</u>	<u>\$ 10,060,328</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Private Equity Funds	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2015	\$ 4,467,852	\$ 5,304,401	\$ 149,226	\$ 9,921,479
Interest	-	154,636	-	154,636
Total gains or losses (realized/unrealized) included in earnings				
Other changes in fair value	-	(264,754)	(2,744)	(267,498)
Gains (losses)	207,536	(20,081)	-	187,455
Purchases	538,088	38,495	-	576,583
Sales	<u>(680,351)</u>	<u>(284,010)</u>	<u>(8,960)</u>	<u>(973,321)</u>
Ending balance, June 30, 2016	<u>\$ 4,533,125</u>	<u>\$ 4,928,687</u>	<u>\$ 137,522</u>	<u>\$ 9,599,334</u>

The University records transfers in and/or out of the various levels as of the end of the respective reporting period.

Unrealized gains (losses) generated from Level 3 investments still held at June 30, 2017 and 2016, and reported in the University's statement of activities were \$671,797 and (\$161,862), respectively.

(Continued)



CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 3 – PLEDGES RECEIVABLE**

For the years ending June 30, 2017 and 2016, the University had received unconditional promises to give totaling \$485,132 and \$1,073,617, respectively, on which management has determined that no allowance for uncollectible promises is necessary. Most unconditional promises are restricted for investment in buildings and are due as follows:

	<u>2017</u>	<u>2016</u>
Gross:		
Less than one year	\$ 206,181	\$ 240,096
One to five years	267,000	840,030
More than five years	<u>43,745</u>	<u>53,000</u>
	516,926	1,133,126
Less: discount	<u>31,795</u>	<u>59,509</u>
	<u>\$ 485,131</u>	<u>\$ 1,073,617</u>

The amounts are recorded at the present value of future cash flows based on a discount rate of 5% for both periods that totaled \$31,795 and \$59,509 as of June 30, 2017 and 2016, respectively.

**NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT**

The following is a summary of land, buildings, and equipment:

	<u>2017</u>	<u>2016</u>
Land	\$ 11,768,077	\$ 11,587,307
Improvements other than buildings	12,739,525	12,739,525
Real estate held for future expansion	3,868,896	3,990,510
Buildings	97,608,452	82,958,069
Building improvements	36,122,518	34,867,944
Equipment	33,888,173	29,455,734
Library books	3,345,524	3,279,221
Law library books	14,794,011	14,420,323
Construction in progress	<u>1,042,937</u>	<u>12,275,298</u>
	215,178,113	205,573,931
Accumulated depreciation and amortization	<u>104,336,736</u>	<u>97,196,863</u>
	<u>\$ 110,841,377</u>	<u>\$ 108,377,068</u>

Contractual commitments remaining under ongoing and planned construction projects approximated \$935,000 and \$3,275,000 at June 30, 2017 and 2016, respectively.

**NOTE 5 – SHORT-TERM BORROWINGS**

The University has a \$10,000,000 unsecured line of credit agreement with a bank. Advances bear interest at LIBOR plus 2.15%. There was no outstanding balance at June 30, 2017 and 2016 and the expiration date is December 31, 2017.

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 6 – NOTE AND MORTGAGE PAYABLE**

The University had the following notes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Notes payable	\$ 68,050	\$ 71,009
Mortgage payable	<u>808,717</u>	<u>-</u>
	<u>\$ 876,767</u>	<u>\$ 71,009</u>

In October 2014, the University entered into a promissory note agreement for certain water line renovations on its main campus. The agreement is unsecured and principal is payable in annual installments of approximately \$3,000 over 26 years. There is no interest on the note.

In July 2016, the University entered into a mortgage agreement as a result of acquiring the president's house. The agreement is secured by the property and is payable in biannual installments of \$28,059 (including interest at 2.950%) over 5 years with one principal and interest payment of \$702,234 due June 2021.

**NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE**

The University had the following capitalized lease obligations at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital University 2013 Project	\$ 3,470,000	\$ 3,590,000
Capital University 2015 Project	<u>28,820,000</u>	<u>23,825,600</u>
	32,290,000	27,415,600
Less: Unamortized debt issuance costs	<u>115,448</u>	<u>126,973</u>
	<u>\$ 32,174,552</u>	<u>27,288,627</u>

On October 15, 2006, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission to refinance a construction loan, the 1996 and 2001 capitalized lease agreements, and to finance construction and improvements relating to the University's campus master plan. The University's lease serves as security for the Commission's \$30,850,000 Higher Education Facility Variable Rate Revenue Bonds (Capital University 2006 Project).

On April 1, 2013, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission to refinance a loan on an apartment building adjacent to its main campus to use for student housing. The University's lease serves as security for the Commission's \$3,970,000 Higher Education Facility Fixed Rate Revenue Bonds (Capital University 2013 Project). In the event of University default on its obligations, the Project assets that were acquired with the bond proceeds could be possessed by the trustee of the bonds. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with PNC Bank.

On May 1, 2015, the University entered into a lease agreement with the Ohio Higher Educational Facility Commission to refinance the 2006 capitalized lease agreements and to finance construction of a new academic building. The University's lease serves as security for the Commission's \$30,780,000 Higher

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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Education Facility Variable Rate Revenue Drawdown Bonds (Capital University 2015 Project). At June 30, 2017 and 2016, \$28,820,000 and \$23,825,600, respectively, was drawn down on the bonds. The construction of the new academic building commenced in fall 2015 and was completed in fall 2016. In the event of University default on its obligations, the Project assets that were acquired with the bond proceeds could be possessed by the trustee of the bonds. The University has provided a general pledge of its revenues as collateral for the 2015 Bonds. The interest rate on the 2015 Bonds is calculated at 70% of LIBOR (1.22722% and .46885% at June 30, 2017 and 2016, respectively) plus 85 basis points. The variable rate at June 30, 2017 and 2016 was 1.71% and 1.18%, respectively. The obligation is due May 1, 2031. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with PNC Bank.

At June 30, 2017, future principal payments by year and in the aggregate under the capital lease obligations consist of the following:

2018	\$ 1,527,446
2019	1,584,495
2020	1,646,685
2021	1,714,015
2022	1,781,499
After 2022	<u>24,035,860</u>
	<u>\$ 32,290,000</u>

The cost and accumulated amortization of the assets under the capital leases are as follows:

	<u>2017</u>	<u>2016</u>
Cost	\$ 81,389,790.	\$ 67,403,332
Accumulated amortization	<u>28,862,695</u>	<u>26,885,094</u>
	<u>\$ 52,527,095</u>	<u>\$ 40,518,238</u>

The interest rate on the 2013 Project lease for the years ended June 30, 2017 and 2016 was 2.05%. Total interest and fees paid and expensed under this lease for the years ended June 30, 2017 and 2016, was \$74,000 and \$76,000, respectively. Amortization of the assets under the capital lease is included with depreciation expense.

The interest rate on the 2015 Project lease for the years ended June 30, 2017 and 2016 was 1.5% and 1.1%, respectively. Total interest and fees paid and expensed under the lease for the year ended June 30, 2017 and 2016 was \$400,000 and \$266,700, respectively. Amortization of the assets under the capital lease is included with depreciation expense.

The University also has agreed to certain financial and operating covenants with which the University has complied.

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 8 – INTEREST RATE SWAP AGREEMENT**

As part of 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 a future interest rate swap agreement for a portion of its 2015 variable rate debt. In conjunction with the refinancing of the 2006 Bonds and issuance of the 2015 Bonds, on April 7, 2015, the University entered into a swap agreement with an effective date of July 3, 2017 to exchange the difference between the fixed 2.3% interest rate and a variable-rate interest rate indexed to 70% of LIBOR plus 85 basis points and calculated on an original notional value of \$14,000,000. The future contract has a termination date of December 1, 2031 with an early termination date of May 2, 2022. As of June 30, 2017 and 2016, the University recorded unrecognized gain and (loss) on the position of \$429,000 and \$(884,000), respectively, that is included in Investment earnings in the Statements of Activities. The fair value of \$454,459 and \$884,279 as of June 30, 2017 and 2016, respectively, is included in Accrued liabilities in the Statement of Financial Position.

The University is exposed to credit loss in the event of nonperformance by the counterparties; however, the University does not anticipate nonperformance by the counter party.

**NOTE 9 – PENSION PLAN**

The University contributed \$2,383,218 and \$2,365,344 during the years ended June 30, 2017 and 2016, respectively, to a Section 403(b) tax sheltered annuity arrangement for eligible members of the faculty and staff. The benefits provided are on a defined contribution method based on a percentage of compensation.

**NOTE 10 – POSTRETIREMENT BENEFIT OBLIGATION**

The University provides certain healthcare benefits to retirees who were fulltime employees and completed 10 years of service and reached age 59 ½. Employees hired on or after January 1, 2008 are not eligible for this benefit. Eligible retirees and their electing spouses are covered under the University's self-insured medical plan until the retiree reaches age 65. Surviving spouses are not covered. The premiums are assumed to be the actuarial equivalent of claims and administrative expenses and are used as the basis for the liability calculation.

Prior to July 1, 2005, retirees were not required to pay towards the cost of single retiree coverage, however were required to pay 50% of the additional premium for spousal coverage. After July 1, 2005, all existing and future retirees are required to pay the same premium, depending on coverage chosen, as active employees. Employer contributions are consistent with expected benefit payments.

The following table sets forth the funded status and amounts recognized in the statement of financial position at June 30:

	<u>2017</u>	<u>2016</u>
Accumulated benefit obligation		
Accumulated benefit obligation	\$ (1,284,165)	\$ (1,414,190)
Fair value of plan assets	<u>                  -</u>	<u>                  -</u>
Funded status at June 30	<u>\$ (1,284,165)</u>	<u>\$ (1,414,190)</u>

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 10 – POSTRETIREMENT BENEFIT OBLIGATION** (Continued)

The following table sets forth the activities related to this obligation for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Accrued benefit cost		
Beginning of year balance	\$ (1,414,190)	\$ (1,757,136)
Interest cost of on projected plan	(53,032)	(74,678)
Service cost on projected plan	<u>(38,426)</u>	<u>(45,044)</u>
Net periodic pension cost	(91,458)	(119,722)
Employer benefit payments	199,325	299,391
Postretirement benefit obligation related changes other than periodic cost	<u>22,158</u>	<u>163,277</u>
Accrued postretirement liability recognized in the statement of financial position	<u>\$ (1,284,165)</u>	<u>\$ (1,414,190)</u>

Net periodic pension expenses for the year ended June 30, 2018 are expected to be \$65,391. Contributions expected to be made next year are approximately \$181,374. The amount of the net gain or (loss) that has been recognized in net assets but not as a component of pension expense is approximately (\$292,300) and (\$291,600) at June 30, 2017 and 2016, respectively.

Assumptions used to determine the actuarial present value of the accumulated postretirement benefit obligation and net periodic pension costs were as follows at June 30:

	<u>2017</u>	<u>2016</u>
Discount rate	4.00%	3.75%
Healthcare cost trend rate:		
Current year	9.00	9.00
Subsequent year	8.00	8.00
Ultimate trend rate	5.00	5.00
Year reached	2021	2020

Future benefit payments are projected as follows:

2018	\$ 181,374
2019	163,044
2020	138,775
2021	127,360
2022	105,275
2023-2026	547,049

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 10 – POSTRETIREMENT BENEFIT OBLIGATION** (Continued)

The effects of a one percent change in the assumed health care cost trend rate in each year are summarized as follows:

	<u>2017</u>	<u>2016</u>
Effect of an increase		
Accumulated postretirement benefit obligation	\$ 69,759	\$ 75,264
Service cost and interest cost	6,398	6,702
Effect of a decrease		
Accumulated postretirement benefit obligation	(63,891)	(68,882)
Service cost and interest cost	(5,803)	(6,064)

**NOTE 11 – NET ASSETS**

Temporarily restricted net assets at June 30, 2017 and 2016 include:

	<u>2017</u>	<u>2016</u>
Accumulated gains	\$ 12,578,217	\$ 9,827,189
Education and general	6,900,604	6,364,121
Split interest agreements	522,783	576,828
Capital additions	<u>2,455,238</u>	<u>1,872,923</u>
	<u>\$ 22,456,842</u>	<u>\$ 18,641,061</u>

Permanently restricted net assets at June 30, 2017 and 2016 include:

	<u>2017</u>	<u>2016</u>
Endowment – primarily for scholarships	\$ 43,860,508	\$ 42,380,097
Trusts held by others	5,286,858	4,928,687
Loan funds	495,771	509,281
Split interest agreements	<u>51,737</u>	<u>101,260</u>
	<u>\$ 49,694,874</u>	<u>\$ 47,919,325</u>

**NOTE 12 – ENDOWMENT COMPOSITION**

The University's endowment primarily consists of funds held at Deutsche Bank. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. In addition, the endowment also includes beneficial interests in perpetual trusts. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 12 – ENDOWMENT COMPOSITION** (Continued)

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor restricted endowment funds	\$ (252,745)	\$ 12,578,217	\$ 43,718,595	\$ 56,044,067
Board-designated funds	16,571,702	-	-	16,571,702
Beneficial interest in perpetual trusts	-	-	5,286,858	5,286,858
Total funds	<u>\$ 16,318,957</u>	<u>\$ 12,578,217</u>	<u>\$ 49,005,453</u>	<u>\$ 77,902,628</u>

Changes in endowment net assets for year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment assets, beginning of year	\$ 14,366,560	\$ 9,827,190	\$ 46,494,769	\$ 70,688,519
Investment return				
Investment income, net	425,237	841,447	60,938	1,327,622
Net depreciation (realized and unrealized gains/losses)	<u>2,073,939</u>	<u>4,401,051</u>	-	<u>6,474,990</u>
Total investment return	2,499,176	5,242,498	60,938	7,802,612
Losses on temporarily restricted endowment assets	458,541	(458,541)	-	-
Change in beneficial interest in perpetual trusts	-	54,540	303,631	358,171
Contributions	45,896	-	2,146,117	2,192,013
Appropriation of endowment assets for expenditure	<u>(1,051,218)</u>	<u>(2,087,468)</u>	-	<u>(3,138,686)</u>
Endowment assets, end of year	<u>\$ 16,318,955</u>	<u>\$ 12,578,219</u>	<u>\$ 49,005,455</u>	<u>\$ 77,902,629</u>

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor restricted endowment funds	\$ (697,733)	\$ 9,827,189	\$ 41,566,082	\$ 50,695,538
Board-designated funds	15,064,293	-	-	15,064,293
Beneficial interest in perpetual trusts	-	-	4,928,687	4,928,687
Total funds	<u>\$ 14,366,560</u>	<u>\$ 9,827,189</u>	<u>\$ 46,494,769</u>	<u>\$ 70,688,518</u>

(Continued)

CAPITAL UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 12 – ENDOWMENT COMPOSITION** (Continued)

Changes in endowment net assets for year ended June 30, 2016.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment assets, beginning of year	\$ 16,243,402	\$ 12,387,603	\$ 43,068,080	\$ 71,699,085
Investment return				
Investment income, net	343,142	678,998	49,173	1,071,313
Net depreciation (realized and unrealized gains/losses)	<u>(808,582)</u>	<u>(1,715,870)</u>	<u>-</u>	<u>(2,524,452)</u>
Total investment return	(465,440)	(1,036,872)	49,173	(1,453,139)
Losses on temporarily restricted endowment assets	(444,988)	444,988	-	-
Change in beneficial interest in perpetual trusts	-	(39,748)	(373,594)	(413,342)
Contributions	89,998	-	3,751,109	3,841,107
Appropriation of endowment assets for expenditure	<u>(1,056,412)</u>	<u>(1,928,781)</u>	<u>(146,086)</u>	<u>(3,131,279)</u>
Endowment assets, end of year	<u>\$ 14,366,560</u>	<u>\$ 9,827,190</u>	<u>\$ 46,348,682</u>	<u>\$ 70,542,432</u>

The Board of Trustees of the University interprets the Ohio Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) to require consideration (except as otherwise provided by the donor in a gift instrument) of the following factors, if relevant, in making management and investment decisions for donor restricted endowment funds:

- (a) General economic conditions
- (b) The possible effect of inflation or deflation
- (c) The expected tax consequence, if any, of investment decisions or strategies
- (d) The role that each investment or course of action plays within the overall investment portfolio of the fund
- (e) The expected total return from income and the appreciation of investments
- (f) Other resources of the institution
- (g) The need of the institution and of the fund to make distributions and preserve capital
- (h) An asset’s special relationship or special value, if any, to the charitable purpose of the institution

(Continued)



**NOTE 12 – ENDOWMENT COMPOSITION** (Continued)

Management and investment decisions about individual assets shall be made not in isolation but rather in the context of the institution's portfolio of investments as a whole and as part of an investment strategy that has risk and return objectives reasonably suited to the fund and to the institution. The institution will diversify investments unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.

Absent explicit donor stipulation to the contrary, the institution shall classify as permanently restricted net assets the original value of the gifts donated to the permanent endowment, but such classification does not limit the expenditures from the endowment fund only to income. The portion of the fund's value spendable annually for the donor-designated purpose is to be determined, from time to time, by the Board of Trustees, acting in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, considering, if relevant, the following factors:

- (a) The duration and preservation of the endowment fund
- (b) The purposes of the institution and the endowment fund
- (c) General economic conditions
- (d) The possible effect of inflation or deflation
- (e) The expected total return from income and the appreciation of investments
- (f) Other resources of the institution
- (g) The investment policy of the institution

The appropriation for expenditure in any year of an amount not greater than five per cent of the fair market value of an endowment fund, whether or not the total expenditure from it exceeds five per cent, calculated on the basis of market values that are determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made, creates an irrebuttable presumption of prudence.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled \$252,745 and \$697,733 for the years ending June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations.

The University receives significant financial assistance from governmental agencies in the form of grants. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by grantor agencies and possible disallowance of certain expenditures. The University has not had any disallowance of expenditures in the past and expects such amounts, if any, to be immaterial.

The University from time to time is subject to litigation in the ordinary course of its business. It is the opinion of management that the outcome of these actions is either adequately covered by insurance, or if not insured, will not have a material adverse impact on the University's financial position or results of future operations.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

The University receives significant financial assistance from governmental agencies in the form of grants. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by grantor agencies and possible disallowance of certain expenditures. The University has not had any disallowance of expenditures in the past and expects such amounts, if any, to be immaterial.

The University from time to time is subject to litigation in the ordinary course of its business. It is the opinion of management that the outcome of these actions is either adequately covered by insurance, or if not insured, will not have a material adverse impact on the University's financial position or results of future operations.

**NOTE 14 – SUBSEQUENT EVENT**

In November 2016, the University agreed to pursue a reunion with Trinity Lutheran Seminary as originally formed prior to the separation in 1959. The Boards of both institutions reached separate but unanimous decisions. In June 2017, the Boards of both institution agreed to continue pursuing the reunion through an asset acquisition agreement. The University continues to explore how the reunion will impact the institutions prior to presenting for final board approval in fiscal 2018.