CAPITAL UNIVERSITY
Columbus, Ohio

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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CONTENTS

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Maloney
Maloney + Novotny LLC

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, 2016 and 2015, 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 audit. We conducted our audit 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, 2016 and 2015, 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.

Maloney + Novotny LLC

Cleveland, Ohio
October 25, 2016

CAPITAL UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 7,451,718	$ 12,390,656
Accounts receivable		
Students, less allowance for $906,440 and $1,083,878 in 2016 and 2015, respectively	2,014,045	2,176,429
Other	820,374	858,397
Prepaid expenses and other assets	1,091,908	1,271,936
Short term investments	19,115,564	23,015,259
Pledges receivable	1,073,617	1,967,975
Student notes receivable, less allowance of $65,500 in 2016 and 2015	5,030,866	5,317,604
Contributions receivable from remainder trusts	115,615	129,569
Beneficial interests in perpetual trusts	4,890,191	5,304,401
Long-term investments	70,031,642	70,352,557
Land, buildings and equipment, less accumulated depreciation and amortization of $97,196,863 and $90,459,342 in 2016 and 2015, respectively	108,377,068	100,479,697
Total assets	$ 220,012,608	$ 223,264,480
LIABILITIES AND NET ASSETS		
Accounts payable	$ 6,892,525	$ 4,450,783
Accrued liabilities	5,239,634	4,187,448
Student advance deposits	381,730	388,576
Deferred tuition revenue	2,852,366	2,868,652
Agency funds held for others	247,302	197,024
Notes payable	71,009	73,967
Capital lease obligations payable	27,415,600	28,490,600
Annuities payable	808,782	914,051
Postretirement benefit obligation	1,414,190	1,757,136
Advances from government for student loans	5,793,030	5,920,081
Total liabilities	51,116,168	49,248,318
Net assets		
Unrestricted	102,336,054	108,656,967
Temporarily restricted	18,641,061	19,829,433
Permanently restricted	47,919,325	45,529,762
Total net assets	168,896,440	174,016,162
Total liabilities and net assets	$ 220,012,608	$ 223,264,480

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF ACTIVITIES
Year ended June 30, 2016 with comparative 2015 totals

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Revenue, gains and other support					
Student tuition and fees	$ 96,725,704	$ -	$ -	$ 96,725,704	$ 95,423,467
Unfunded student financial aid	(48,310,582)	-	-	(48,310,582)	(44,821,044)
Funded student financial aid	(1,827,194)	-	-	(1,827,194)	(1,797,772)
	46,587,928	-	-	46,587,928	48,804,651
Private gifts and grants	1,110,404	1,951,926	2,750,157	5,812,487	5,245,970
Government grants and contracts	68,623	1,506,140	-	1,574,763	1,202,912
Investment income	1,617,388	1,932,955	-	3,550,343	3,346,974
Other	996,185	331,646	-	1,327,831	1,281,187
Auxiliary enterprises	14,264,628	-	-	14,264,628	13,684,233
Net assets released from restrictions	5,124,737	(5,124,737)	-	-	-
Total revenue	69,769,893	597,930	2,750,157	73,117,980	73,565,927
Expenses					
Instructional	31,538,818	-	-	31,538,818	31,364,334
Academic support	4,226,045	-	-	4,226,045	4,673,268
Student services	13,039,995	-	-	13,039,995	12,256,646
Institutional support	14,236,235	-	-	14,236,235	13,962,471
Auxiliary expenses	9,108,207	-	-	9,108,207	8,861,627
Total expenses	72,149,300	-	-	72,149,300	71,118,346
Change in net assets before other activities	(2,379,407)	597,930	2,750,157	968,680	2,447,581
Other activities					
Investment earnings	(4,489,954)	(1,799,540)	(298,266)	(6,587,760)	(4,445,178)
Actuarial change in annuity liability and maturities	(34,305)	13,238	(62,328)	(83,395)	(477,511)
Postretirement benefit obligation related changes other than periodic costs	163,277	-	-	163,277	(644,536)
Gain on sale of assets	419,476	-	-	419,476	-
Total other activities	(3,941,506)	(1,786,302)	(360,594)	(6,088,402)	(5,567,225)
Change in net assets	(6,320,913)	(1,188,372)	2,389,563	(5,119,722)	(3,119,644)
Net assets at beginning of year	108,656,967	19,829,433	45,529,762	174,016,162	177,135,806
Net assets at end of year	$102,336,054	$ 18,641,061	$ 47,919,325	$168,896,440	$174,016,162

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENT OF ACTIVITIES
Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
Revenue, gains and other support				
Student tuition and fees	$ 95,423,467	$ -	$ -	$ 95,423,467
Unfunded student financial aid	(44,821,044)	-	-	(44,821,044)
Funded student financial aid	(1,797,772)	-	-	(1,797,772)
	48,804,651	-	-	48,804,651
Private gifts and grants	1,148,959	1,282,108	2,814,903	5,245,970
Government grants and contracts	69,332	1,133,580	-	1,202,912
Investment income	1,533,273	1,813,701	-	3,346,974
Other	770,845	510,342	-	1,281,187
Auxiliary enterprises	13,684,233	-	-	13,684,233
Net operating assets released from restrictions	4,772,804	(4,772,804)	-	-
Total revenue	70,784,097	(33,073)	2,814,903	73,565,927
Expenses				
Instructional	31,364,334	-	-	31,364,334
Academic support	4,673,268	-	-	4,673,268
Student services	12,256,646	-	-	12,256,646
Institutional support	13,962,471	-	-	13,962,471
Auxiliary expenses	8,861,627	-	-	8,861,627
Total expenses	71,118,346	-	-	71,118,346
Change in net assets before other activities	(334,249)	(33,073)	2,814,903	2,447,581
Other activities				
Investment earnings	(2,461,203)	(1,917,432)	(66,543)	(4,445,178)
Actuarial change in annuity liability and maturities	(339,951)	(64,005)	(73,555)	(477,511)
Postretirement benefit obligation related changes other than periodic costs	(644,536)	-	-	(644,536)
Total other activities	(3,445,690)	(1,981,437)	(140,098)	(5,567,225)
Change in net assets	(3,779,939)	(2,014,510)	2,674,805	(3,119,644)
Net assets at beginning of year	112,436,906	21,843,943	42,854,957	177,135,806
Net assets at end of year	$ 108,656,967	$ 19,829,433	$ 45,529,762	$174,016,162

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (5,119,722)	$ (3,119,644)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	7,171,069	7,361,660
Realized and unrealized (gains) losses on investments	4,757,576	3,092,165
Gifts for permanently restricted purposes	(2,750,157)	(2,814,903)
(Gain) loss on disposal of assets	(419,476)	(1,000)
Postretirement benefit obligation related changes other than periodic costs	(163,277)	644,536
Change in operating assets and liabilities		
Accounts receivable	200,407	(67,426)
Pledges receivable	894,358	(1,411,527)
Prepaid expenses and other assets	168,504	(239,340)
Contributions receivable from remainder trusts	13,954	14,764
Accounts payable and accrued liabilities	3,493,928	(190,430)
Student advance deposits	(6,846)	4,682
Deferred tuition revenue	(16,286)	281,054
Agency funds held for others	50,278	(41,340)
Annuities payable	(105,269)	(66,647)
Postretirement benefit obligation	(179,669)	(57,512)
Advances from government for student loans	(127,051)	79,171
Net cash from operating activities	7,862,321	3,468,263
Cash flows from investing activities		
Capital expenditures	(15,352,133)	(5,472,596)
Net proceeds from sale of assets	714,694	1,000
Change in student notes receivable	286,738	92,089
Net (purchases) sales of investments	(122,756)	(271,899)
Net cash from investing activities	(14,473,457)	(5,651,406)
Cash flows from financing activities		
Proceeds on issuance of long-term debt	-	24,857,526
Payments on long-term debt	(1,077,959)	(25,821,759)
Gifts for permanently restricted purposes	2,750,157	2,814,903
Net cash from financing activities	1,672,198	1,850,670
Net change in cash and cash equivalents	(4,938,938)	(332,473)
Cash and cash equivalents at beginning of year	12,390,656	12,723,129
Cash and cash equivalents at end of year	$ 7,451,718	$ 12,390,656
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 342,931	$ 321,690
Donated assets	319,000	-

See accompanying notes to financial statements.

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, 2016 and 2015.

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.

(Continued)

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, 2016 and 2015, management believes no impairments existed.

(Continued)

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, 2016 and 2015, the University released $5,124,737 and $4,772,804, 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.

Other assets released from restrictions: This represents the release of restricted net assets that have now fulfilled the donors' purpose.

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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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, 2016 or 2015.

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, 2016 or 2015. The University is no longer subject to examination by taxing authorities for years before 2013. 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, 2016 and 2015, 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, 2016 and 2015 was approximately $3,780,600 and $3,686,000.

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

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2016 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2016. Management has performed this analysis through October 25, 2016, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	2016	2015
U.S. government and government agencies	$ 2,644,667	$ 2,504,869
Corporate bonds	3,776,611	3,705,766
Mutual funds – equities	52,744,746	55,796,669
Mutual funds – bonds	15,073,733	15,517,101
Invested cash	3,200,320	3,943,682
Hedge funds of funds	7,174,004	7,431,877
Private equity funds	4,533,125	4,467,852
	$ 89,147,206	$ 93,367,816

For the years ending June 30, 2016 and 2015, total investments shown above included short-term investments of $19,115,564 and $23,015,259, respectively.

The composition of investment return is as follows:

	2016	2015
Investment income (interest and dividends)	$ 2,055,111	$ 2,346,506
Investment expenses	(334,952)	(352,545)
Net realized gain	3,680,357	4,062,884
Net unrealized gain (loss)	(8,437,933)	(7,155,049)
Total investment return	(3,037,417)	(1,098,204)
Investment return included in revenues	(3,550,343)	(3,346,974)
Investment return included in other activities	$ (6,587,760)	$ (4,445,178)

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.

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).

(Continued)

NOTE 2 – INVESTMENTS (Continued)

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, 2016. There were no unfunded commitments at June 30, 2016 and 2015.

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 six 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, 2016 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 $3,106,300 and $3,646,650 at June 30, 2016 and 2015, 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).

(Continued)

NOTE 2 – INVESTMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and 2015, are summarized below:

	Fair Value Measurements Using Quoted Prices in		
	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	15,073,733	-	-
Hedge funds of funds	-	7,174,004	-
Private equity funds	-	-	4,533,125
Beneficial interests in perpetual trusts	-	-	4,890,191
Liabilities			
Interest rate swap	-	884,279	-

	Fair Value Measurements Using Quoted Prices in		
	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015:			
U.S. government and government agencies	$ 2,504,869	$ -	$ -
Corporate bonds	3,556,540	-	149,226
Mutual funds - equities	55,796,669	-	-
Mutual funds – bonds	15,517,101	-	-
Hedge funds of funds	-	7,431,877	-
Private equity funds	-	-	4,467,852
Beneficial interests in perpetual trusts	-	-	5,304,401

(Continued)

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, 2016 and 2015:

	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	-	-	538,088
Sales	(680,351)	(284,011)	(8,960)	(973,322)
Ending balance, June 30, 2016	$ 4,533,125	$ 4,890,191	$ 137,522	$ 9,560,838

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Private Equity Funds	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2014	$ 4,770,147	$ 5,486,379	$ 159,924	$ 10,416,450
Interest	-	209,917	-	209,917
Total gains or losses (realized/unrealized) included in earnings				
Other changes in fair value	-	(560,887)	(2,199)	(563,086)
Gains (losses)	77,744	413,238	-	490,982
Purchases	465,755	-	-	465,755
Sales	(845,794)	(244,246)	(8,499)	(1,098,539)
Ending balance, June 30, 2015	$ 4,467,852	$ 5,304,401	$ 149,226	$ 9,921,479

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, 2016 and 2015, and reported in the University's statement of activities were ($161,862) and ($86,916), respectively.

(Continued)

NOTE 3 – PLEDGES RECEIVABLE

For the years ending June 30, 2016 and 2015, the University had received unconditional promises to give totaling $1,073,617 and $1,967,975, 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:

	2016	2015
Gross:		
Less than one year	$ 240,096	$ 186,383
One to five years	840,030	1,959,780
More than five years	53,000	3,000
	1,133,126	2,149,163
Less: discount	59,509	181,188
	$ 1,073,617	$ 1,967,975

The amounts are recorded at the present value of future cash flows based on a discount rate of 5% for both periods that totaled $59,509 and $181,188 as of June 30, 2016 and 2015, respectively.

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

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

	2016	2015
Land	$ 11,587,307	$ 11,417,442
Improvements other than buildings	12,739,525	12,670,976
Real estate held for future expansion	3,990,510	4,119,618
Buildings	82,958,069	82,770,569
Building improvements	34,867,944	33,081,159
Equipment	29,455,734	27,910,864
Library books	3,279,221	3,293,669
Law library books	14,420,323	14,036,576
Construction in progress	12,275,298	1,638,166
	205,573,931	190,939,039
Accumulated depreciation and amortization	97,196,863	90,459,342
	$ 108,377,068	$ 100,479,697

Contractual commitments remaining under ongoing and planned construction projects approximated $3,275,000 and $12,800,000 at June 30, 2016 and 2015, 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, 2016 and 2015 and the expiration date is December 31, 2016.

(Continued)

NOTE 6 – NOTES PAYABLE

The University had the following note at June 30, 2016 and 2015:

	2016	2015
Notes payable	$ 71,009	$ 73,967
	$ 71,009	$ 73,967

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 June 1995 the University entered into a promissory note agreement as the result of acquiring certain land adjacent to its main campus. The agreement is unsecured and is payable in annual installments of $114,600 (including interest at 9.75%). Final payment was made in June 2015. Total interest paid and expensed for the year ended June 30, 2015 was approximately $11,000.

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE

The University had the following capitalized lease obligations at June 30, 2016 and 2015:

	2016	2015
Capital University 2013 Project	$ 3,590,000	$ 3,710,000
Capital University 2015 Project	23,825,600	24,780,600
	$ 27,415,600	$ 28,490,600

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.

(Continued)

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

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 Education Facility Variable Rate Revenue Drawdown Bonds (Capital University 2015 Project). At June 30, 2016 and 2015, $24,780,600 was drawn down on the bonds. The construction of the new academic building will commence in fall 2015 and is expected to be completed by 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 (.46885% and .18666% at June 30, 2016 and 2015, respectively) plus 85 basis points. The variable rate at June 30, 2016 and 2015 was 1.18% and .98%, 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, 2016, future principal payments by year and in the aggregate under the capital lease obligations consist of the following:

2017	$ 1,125,000
2018	1,175,000
2019	1,225,000
2020	1,280,000
2021	1,340,000
After 2021	21,270,600
	$ 27,415,600

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

	2016	2015
Cost	$ 67,403,332	$ 67,396,832
Accumulated amortization	26,885,094	24,907,104
	$ 40,518,238	$ 42,489,728

The interest rate on the 2006 Project lease for the years ended June 30, 2015 was 0.05%. Total interest and fees paid and expensed under the lease for the year ended June 30, 2015 was $298,600. Amortization of the assets under the capital lease is included with depreciation expense.

The interest rate on the 2013 Project lease for the years ended June 30, 2016 and 2015 was 2.05%. Total interest and fees paid and expensed under this lease for the years ended June 30, 2016 and 2015, was $76,000 and $78,000, respectively. Amortization of the assets under the capital lease is included with depreciation expense.

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

(Continued)

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

The 2006 Project lease was secured by a direct-pay letter of credit issued by PNC Bank. Debt service on those bonds is paid by draws on the letter of credit. In the event those bonds are tendered for purchase and are not remarketed, the purchase price for the tendered bonds is also paid through a draw on the letter of credit. Pursuant to a Reimbursement Agreement between the University and PNC Bank, the University is obligated to reimburse the bank for draws on the letter of credit. The letter of credit was terminated when the 2006 Bonds were refunded in June 2015.

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

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, 2016, the University recorded unrecognized losses on the position of $884,000 that is included in Investment earnings in the Statements of Activities.

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 $2,365,344 and $2,393,334 during the years ended June 30, 2016 and 2015, 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 fully insured group 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.

(Continued)

NOTE 10 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

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

	2016	2015
Accumulated benefit obligation		
Accumulated benefit obligation	$ (1,414,190)	$ (1,757,136)
Fair value of plan assets	-	-
Funded status at June 30	$ (1,414,190)	$ (1,757,136)

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

	2016	2015
Accrued benefit cost		
Beginning of year balance	$ (1,757,136)	$ (1,170,112)
Interest cost of on projected plan	(74,678)	(49,730)
Service cost on projected plan	(45,044)	(43,760)
Net periodic pension cost	(119,722)	(93,490)
Employer benefit payments	299,391	151,002
Postretirement benefit obligation related changes other than periodic cost	163,277	(644,536)
Accrued postretirement liability recognized in the the statement of financial position	$ (1,414,190)	$ (1,757,136)

Net periodic pension expenses for the year ended June 30, 2017 are expected to be $70,006. Contributions expected to be made next year are approximately $199,325. 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 ($291,600) and ($128,300) at June 30, 2016 and 2015, 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:

	2016	2015
Discount rate	3.75%	4.25%
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	2020	2020

(Continued)

NOTE 10 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

Future benefit payments are projected as follows:

2017	$ 199,325
2018	195,286
2019	155,389
2020	143,326
2021	131,830
2022-2026	546,085

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

	2016	2015
Effect of an increase		
Accumulated postretirement benefit obligation	$ 75,264	$ 84,238
Service cost and interest cost	6,702	8,018
Effect of a decrease		
Accumulated postretirement benefit obligation	(68,882)	(77,328)
Service cost and interest cost	(6,064)	(7,267)

NOTE 11 – NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 include:

	2016	2015
Accumulated gains	$ 9,827,189	$ 12,387,603
Education and general	6,364,121	5,542,647
Split interest agreements	576,828	571,349
Capital additions	1,872,923	1,327,834
	$ 18,641,061	$ 19,829,433

Permanently restricted net assets at June 30, 2016 and 2015 include:

	2016	2015
Endowment – primarily for scholarships	$ 42,418,593	$ 39,578,646
Trusts held by others	4,890,191	5,304,401
Loan funds	509,281	528,905
Split interest agreements	101,260	117,810
	$ 47,919,325	$ 45,529,762

(Continued)

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.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment funds	$ (697,733)	$ 12,084,644	$ 39,495,658	$ 50,882,569
Board-designated funds	14,915,758	-	-	14,915,758
Beneficial interest in perpetual trusts	-	-	4,890,191	4,890,191
Total funds	$ 14,218,025	$ 12,084,644	$ 44,385,849	$ 70,688,518

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Endowment assets, beginning of year	$ 16,118,839	$ 14,474,999	$ 41,105,246	$ 71,699,084
Investment return				
Investment income, net	343,142	678,998	49,173	1,071,313
Net depreciation (realized and unrealized gains/losses)	(808,582)	(1,715,870)	-	(2,524,452)
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)	(373,593)	(413,341)
Contributions	89,998	-	3,751,109	3,841,107
Appropriation of endowment assets for expenditure	(1,080,384)	(1,758,723)	(146,086)	(2,985,193)
Endowment assets, end of year	$ 14,218,025	$ 12,084,644	$ 44,385,849	$ 70,688,518

(Continued)

NOTE 12 – ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment funds	$ (252,745)	$ 14,474,999	$ 35,800,845	$ 50,023,099
Board-designated funds	16,371,584	-	-	16,371,584
Beneficial interest in perpetual trusts	-	-	5,304,401	5,304,401
Total funds	$ 16,118,839	$ 14,474,999	$ 41,105,246	$ 71,699,084

Changes in endowment net assets for year ended June 30, 2015.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Endowment assets, beginning of year	$ 17,429,966	$ 16,535,873	$ 40,065,628	$ 74,031,467
Investment return				
Investment income, net	429,586	850,052	61,561	1,341,199
Net depreciation (realized and unrealized gains/losses)	(665,621)	(1,412,497)	-	(2,078,118)
Total investment return	(236,035)	(562,445)	61,561	(736,919)
Losses on temporarily restricted endowment assets	(132,792)	132,792	-	-
Change in beneficial interest in perpetual trusts	-	(12,612)	(169,862)	(182,474)
Contributions	41,519	8,306	1,301,359	1,351,184
Appropriation of endowment assets for expenditure	(983,819)	(1,626,915)	(153,440)	(2,764,174)
Endowment assets, end of year	$ 16,118,839	$ 14,474,999	$ 41,105,246	$ 71,699,084

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 $697,733 and $252,745 for the years ending June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations.

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 are 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.