CAPITAL UNIVERSITY
Columbus, Ohio

FINANCIAL STATEMENTS
June 30, 2018 and 2017

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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 (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maloney + Novotny LLC

Cleveland, Ohio
October 23, 2018

CAPITAL UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 4,748,870	$ 4,030,720
Restricted cash	579,571	-
Accounts receivable		
Students, less allowance for $926,643 and $849,070 in 2018 and 2017, respectively	2,031,864	1,987,794
Other	931,761	623,384
Prepaid expenses and other assets	864,549	859,449
Pledges receivable	830,427	485,131
Student notes receivable, less allowance of $105,500 and $65,500 in 2018 and 2017, respectively	4,559,716	4,760,330
Contributions receivable from remainder trusts	1,176,849	104,018
Beneficial interests in perpetual trusts	8,941,294	5,286,858
Long-term investments	124,205,939	100,171,026
Land, buildings and equipment, less accumulated depreciation and amortization of $112,389,105 and $104,336,736 in 2018 and 2017, respectively	133,653,814	110,841,377
Total assets	$ 282,524,654	$ 229,150,087
LIABILITIES AND NET ASSETS		
Accounts payable	$ 4,746,371	$ 5,602,400
Accrued liabilities	4,392,273	4,718,870
Student advance deposits	344,302	372,383
Deferred tuition revenue	2,829,174	2,800,921
Agency funds held for others	269,254	217,114
Note, mortgage, and bond payable	1,348,293	876,767
Capital lease obligations payable	30,658,631	32,174,552
Annuities payable	670,633	745,831
Postretirement benefit obligation	1,093,552	1,284,165
Advances from government for student loans	5,168,370	5,475,816
Total liabilities	51,520,853	54,268,819
Net assets		
Without donor restrictions	125,602,336	102,990,777
With donor restrictions	105,401,465	71,890,491
Total net assets	231,003,801	174,881,268
Total liabilities and net assets	$ 282,524,654	$ 229,150,087

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF ACTIVITIES
Year ended June 30, 2018 with comparative 2017 totals

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Revenue, gains and other support				
Student tuition and fees	$ 98,968,329	$ -	$ 98,968,329	$ 97,103,886
Unfunded student financial aid	(49,491,426)	-	(49,491,426)	(49,299,253)
Funded student financial aid	(1,707,854)	-	(1,707,854)	(1,775,796)
	47,769,049	-	47,769,049	46,028,837
Private gifts and grants	1,628,627	1,541,580	3,170,207	2,861,514
Government grants and contracts	110,071	1,133,525	1,243,596	1,492,046
Investment return appropriated for spending	1,701,580	2,379,944	4,081,524	3,848,062
Other	1,709,173	436,417	2,145,590	1,709,353
Auxiliary enterprises	13,831,236	-	13,831,236	14,316,874
Operating net assets released from restrictions	4,639,045	(4,639,045)	-	-
Total revenue	71,388,781	852,421	72,241,202	70,256,686
Expenses				
Salaries and wages	34,984,980	-	34,984,980	32,822,326
Employee benefits	11,833,690	-	11,833,690	10,979,874
Services, supplies and other operating expenses	15,127,525	-	15,127,525	15,412,307
Occupancy, utilities and maintenance	6,471,283	-	6,471,283	6,051,846
Depreciation and amortization	8,390,507	-	8,390,507	7,251,128
Interest expense	833,405	-	833,405	510,223
Total expenses	77,641,390	-	77,641,390	73,027,704
Change in net assets before other activities	(6,252,609)	852,421	(5,400,188)	(2,771,018)
Other activities				
Investment return, net of spending policy	1,339,673	1,891,062	3,230,735	7,560,957
Reclassification of endowment net assets	(2,632,768)	2,632,768	-	-
Non-operating net assets released from restrictions	1,996,132	(1,996,132)	-	-
Private gifts restricted for endowment	-	3,551,557	3,551,557	1,474,015
Actuarial change in annuity liability and maturities	(37,573)	(76,494)	(114,067)	(245,404)
Expenses related to TLS reunion	(312,268)	-	(312,268)	(111,439)
Postretirement benefit obligation related changes other than periodic costs	98,040	-	98,040	22,158
Gain on sale of assets	-	-	-	55,559
Contribution received in transfer of TLS net assets	28,412,932	26,655,792	55,068,724	-
Total other activities	28,864,168	32,658,553	61,522,721	8,755,846
Changes in net assets	22,611,559	33,510,974	56,122,533	5,984,828
Net assets at beginning of year	102,990,777	71,890,491	174,881,268	168,896,440
Net assets at end of year	$ 125,602,336	$ 105,401,465	$ 231,003,801	$ 174,881,268

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	Without Donor Restrictions	With Donor Restrictions	Total 2017
Revenue, gains and other support			
Student tuition and fees	$ 97,103,886	$ -	$ 97,103,886
Unfunded student financial aid	(49,299,253)	-	(49,299,253)
Funded student financial aid	(1,775,796)	-	(1,775,796)
	46,028,837	-	46,028,837
Private gifts and grants	1,194,310	1,667,204	2,861,514
Government grants and contracts	112,488	1,379,558	1,492,046
Investment return appropriated for spending	1,741,356	2,106,706	3,848,062
Other	1,403,346	306,007	1,709,353
Auxiliary enterprises	14,316,874	-	14,316,874
Operating net assets released from restrictions	4,656,989	(4,656,989)	-
Total revenue	69,454,200	802,486	70,256,686
Expenses			
Salaries and wages	32,822,326	-	32,822,326
Employee benefits	10,979,874	-	10,979,874
Services, supplies and other operating expenses	15,412,307	-	15,412,307
Occupancy, utilities and maintenance	6,051,846	-	6,051,846
Depreciation and amortization	7,251,128	-	7,251,128
Interest expense	510,223	-	510,223
Total expenses	73,027,704	-	73,027,704
Change in net assets before other activities	(3,573,504)	802,486	(2,771,018)
Other activities			
Investment return, net of spending policy	3,580,598	3,980,359	7,560,957
Private gifts restricted for endowment		1,474,015	1,474,015
Actuarial change in annuity liability and maturities	(38,415)	(206,989)	(245,404)
Expenses related to TLS reunion	(111,439)	-	(111,439)
Postretirement benefit obligation related changes other than periodic costs	22,158	-	22,158
Gain on sale of assets	55,559	-	55,559
Total other activities	3,508,461	5,247,385	8,755,846
Changes in net assets	(65,043)	6,049,871	5,984,828
Net assets at beginning of year, as restated	103,055,820	65,840,620	168,896,440
Net assets at end of year	$ 102,990,777	$ 71,890,491	$ 174,881,268

See accompanying notes to financial statements

CAPITAL UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 56,122,533	$ 5,984,828
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	8,390,507	7,251,128
Amortization of debt issuance cost	11,525	11,525
Realized and unrealized gains on investments	(4,590,156)	(9,300,479)
Gifts for permanently restricted purposes	(3,551,557)	(1,474,015)
Gains on disposal of assets	-	(55,558)
Contribution received in transfer of TLS	(55,068,724)	-
Postretirement benefit obligation related changes other than periodic costs	(98,040)	(22,158)
Change in operating assets and liabilities		
Accounts receivable	(16,584)	223,241
Pledges receivable	(345,296)	588,486
Prepaid expenses and other assets	75,573	105,486
Contributions receivable from remainder trusts	19,739	11,597
Accounts payable and accrued liabilities	(1,598,748)	(1,810,889)
Student advance deposits	(28,081)	(9,347)
Deferred tuition revenue	28,253	(51,445)
Agency funds held for others	52,140	(30,188)
Annuities payable	(75,198)	(62,951)
Postretirement benefit obligation	(92,573)	(107,867)
Government advances	(307,446)	(317,214)
Net cash from operating activities	(1,072,133)	934,180
Cash flows from investing activities		
Capital expenditures, net	(3,272,945)	(9,835,026)
Net proceeds from sale of assets	-	175,147
Changes in notes receivable	234,066	270,536
Net proceeds from sale (purchases) of investments	1,326,701	(2,120,008)
Net cash received in transfer of TLS net assets	2,118,061	-
Net cash from investing activities	405,883	(11,509,351)
Cash flows from financing activities		
Proceeds on issuance of long-term debt	-	6,840,150
Payments on long-term debt	(1,587,586)	(1,159,992)
Gifts for permanently restricted purposes	3,551,557	1,474,015
Net cash from financing activities	1,963,971	7,154,173
Net change in cash and cash equivalents	1,297,721	(3,420,998)
Cash and cash equivalents at beginning of year	4,030,720	7,451,718
Cash and cash equivalents at end of year	$ 5,328,441	$ 4,030,720
Cash paid for interest	$ 820,880	$ 498,698

See accompanying notes to financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

In November 2017, the boards of Capital University and Trinity Lutheran Seminary approved an agreement to unify the institutions as originally formed prior to their separation in 1959, and establish Trinity Lutheran Seminary at Capital University. In addition to the board's approval, the union was also endorsed by the Association of Theological Schools, the Evangelical Lutheran Church in America, the Ohio Department of Higher Education and the Higher Learning Commission. The reunion became effective on January 1, 2018 through an asset transfer agreement that resulted in the transfer of the assets and specified assumed liabilities of the Seminary to the University.

As part of the reunion, the institutions petitioned the Franklin County Probate Court to: (1) modify the restrictions imposed on endowment funds to permit their transfer to Capital; (2) order that the historic gift value (corpus) of the Seminary's endowed funds be reset to the market value of the assets available as of the date of transfer with such values to be distributed proportionally across the individual funds that comprise the Seminary's endowment; and (3) order such other and further relief as the court deems just and equitable. The petition was granted in December 2017.

The following assets, liabilities, and net assets, at fair value, were transferred to the University on January 1, 2018:

ASSETS	
Cash and cash equivalents	$ 1,227,061
Restricted cash	891,000
Accounts receivable	
Students, less allowance for doubtful accounts of $14,000	489
Other	27,679
Note receivable, less allowance for doubtful accounts of $40,000	33,452
Contributions receivable	307,696
Investments	21,707,655
Funds held in trust by others	3,891,481
Land and building	27,930,000
Total assets	56,016,513
LIABILITIES AND NET ASSETS	
Accounts payable	221,523
Accrued liabilities	194,600
Bond payable	531,666
Total liabilities	947,789
Net assets	
Without donor restrictions	28,412,932
With donor restrictions	26,655,792

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization (Continued):

The Seminary's operation for the six months ended June 30, 2018, and net assets as of June 30, 2018, are reflected in these financial statements.

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:

> Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor-imposed stipulations. The governing board has designated, from net assets without donor restrictions, net assets for general expenditures and board designated endowment.
>
> Net assets with donor restrictions: 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. Also included in this category are 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, 2018 and 2017.

Restricted cash: Restricted cash represents funds maintained in an escrow account for the purposes of funding capital expenditures at Trinity Lutheran Seminary following the reunion with the University.

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 fair value at the date of the gift. 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 net assets with donor restrictions 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 net assets with donor restrictions 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)

Investments (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 University'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 receivable 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 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	3 - 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, 2018 and 2017, management believes no impairments existed.

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Expiration of Donor-Imposed Restrictions: Contributions received are recorded as without donor restrictions or with donor restrictions depending on the absence or existence 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 net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. For the years ended June 30, 2018 and 2017, the University released $4,639,045 and $4,656,989, respectively, in restricted net assets for the educational and general purposes of the University.

Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed into service.

Other Activities: The University has defined other activities to include non-operating activities and infrequent events, as well as the following:

Investment return, net of spending policy: 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.

Private gifts restricted for endowment: Represents gifts restricted by the donor or the board for purposes of the endowment.

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).

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 to be 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, 2018 or 2017.

(Continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017, 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, 2018 and 2017 was approximately $3,832,100 and $3,540,300.

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. In addition, certain net assets have been reclassified to conform with changes in donor restrictions.

New Accounting Standards: In 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent).* The University adopted the provisions of this new standard during the year ended June 30, 2018. The guidance removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at Net Asset Value (NAV) (or its equivalent) under the practical expedient in the FASB's fair value measurement guidance.

In 2016, the Financial Accounting Standards Board issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The University adopted the provisions of this new standard during the year ended June 30, 2018 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by $261,225 and decreased net assets with donor restrictions by $261,225 resulting from the reclassifications of underwater endowment funds as required under ASU 2016-14.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2018 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2018. Management has performed this analysis through October 23, 2018, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	2018	2017
Invested cash	$ 1,384,991	$ 6,727,251
U.S. government and government agencies	2,852,906	2,210,536
Corporate bonds	3,139,801	3,521,799
Mutual funds – equities	74,640,240	60,290,390
Mutual funds – bonds	24,783,009	15,144,568
Hedge funds of funds	7,967,788	7,628,854
Private equity funds	9,437,204	4,647,628
	$ 124,205,939	$ 100,171,026

(Continued)

NOTE 2 – INVESTMENTS (Continued)

The composition of investment return is as follows:

	2018	2017
Investment income (interest and dividends)	$ 3,107,040	$ 2,452,390
Investment expenses	(384,937)	(343,850)
Net realized gain	1,114,225	928,347
Net unrealized gain	3,475,931	8,372,132
Total investment return	7,312,259	11,409,019
Investment return included in revenues	(4,081,524)	(3,848,062)
Investment return included in other activities	$ 3,230,735	$ 7,560,957

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).

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. 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 measured at net asset value per share of the investments as reported by the manager as a practical expedient for the fair value. As such, these investments are excluded from the fair value hierarchy.

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, 2018. There were no unfunded commitments at June 30, 2018 and 2017.

(Continued)

NOTE 2 – INVESTMENTS (Continued)

For other investments for which there is no active market, generally referred to as "alternative investments", the University relies on the funds' reported net asset value as a practical expedient for the fair value. As such, these investments are excluded from the fair value hierarchy. 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. 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. This includes the University's investments in private equity funds. Private equity funds include 21 separate funds managed by managers 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, 2018 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 $6,776,392 and $5,573,933 at June 30, 2018 and 2017, 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).

Assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017, 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)	Total
June 30, 2018:				
Assets				
Cash and cash equivalents	$ 1,384,991	$ -	$ -	$ 1,384,991
U.S. government and government agencies	2,852,906	-	-	2,852,906
Corporate bonds	3,030,529	-	109,272	3,139,801
Mutual funds - equities	74,640,240	-	-	74,640,240
Mutual funds - bonds	24,783,009	-	-	24,783,009
Total assets in the fair value hierarchy	106,691,675	-	109,272	106,800,947
Funds measured at NAV:				
Hedge funds of funds	-	-	-	7,967,788
Private equity funds	-	-	-	9,437,204
Total investments				124,205,939
Beneficial interests in perpetual trusts	-	-	8,941,294	8,941,294
Liabilities				
Interest rate swap	-	13,614	-	13,614

(Continued)

NOTE 2 – INVESTMENTS (Continued)

	Fair Value Measurements Using Quoted Prices in			
	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2017:				
Assets				
Cash and cash equivalents	$ 6,727,251	$ -	$ -	$ 6,727,251
U.S. government and government agencies	2,210,536	-	-	2,210,536
Corporate bonds	3,395,957	-	125,842	3,521,799
Mutual funds - equities	60,290,390	-	-	60,290,390
Mutual funds - bonds	15,144,568	-	-	15,144,568
Total assets in the fair value hierarchy	81,041,451	-	125,842	87,894,544
Funds measured at NAV:				
Hedge funds of funds	-	-	-	7,628,854
Private equity funds	-	-	-	4,647,628
Total investments				100,171,026
Beneficial interests in perpetual trusts	-	-	5,286,858	5,286,858
Liabilities				
Interest rate swap	-	454,459	-	454,459

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, 2018 and 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2017	$ 5,286,858	$ 125,842	$ 5,412,700
Additions from TLS reunion	3,670,951	-	3,670,951
Interest and dividend	-	-	-
Total gains or losses (realized/unrealized) included in earnings			
Other changes in fair value	-	(6,610)	(6,610)
Gains (losses)	262,780	-	262,780
Purchases	-	-	-
Sales and maturities	(279,295)	(9,960)	(289,255)
Ending balance, June 30, 2018	$ 8,941,294	$ 109,272	$ 9,050,566

(Continued)

NOTE 2 – INVESTMENTS (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interests in Perpetual Trusts	Corporate Bonds	Total
Beginning balance, June 30, 2016	$ 4,928,687	$ 137,522	$ 5,066,209
Interest	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)	292,820	-	292,820
Purchases	-	-	-
Sales	(246,969)	(9,447)	(256,416)
Ending balance, June 30, 2017	$ 5,286,858	$ 125,842	$ 5,412,700

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, 2018 and 2017, and reported in the University's statement of activities were $336,194 and $671,797, respectively.

NOTE 3 – PLEDGES RECEIVABLE

For the years ending June 30, 2018 and 2017, the University had unconditional promises to give totaling $909,126 and $516,926, respectively, on which management has determined that no allowance for uncollectible promises is necessary. Most unconditional promises are restricted for endowments and are due as follows as of June 30, 2018 and 2017:

	2018	2017
Gross:		
Less than one year	$ 243,626	$ 206,181
One to five years	600,500	267,000
More than five years	65,000	43,745
	909,126	516,926
Less: discount	(78,699)	(31,795)
	$ 830,427	$ 485,131

The amounts are recorded at the present value of future cash flows based on a discount rate of 5% for both periods that totaled $78,699 and $31,795 as of June 30, 2018 and 2017, respectively.

(Continued)

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

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

	2018	2017
Land	$ 17,066,671	$ 11,768,077
Improvements other than buildings	12,739,525	12,739,525
Buildings	124,333,930	101,477,348
Building improvements	37,028,403	36,122,518
Equipment	35,808,746	33,888,173
Library books	3,090,482	3,345,524
Law library books	15,042,770	14,794,011
Construction in progress	932,392	1,042,937
	246,042,919	215,178,113
Accumulated depreciation and amortization	(112,389,105)	(104,336,736)
	$ 133,653,814	$ 110,841,377

Contractual commitments remaining under ongoing and planned construction projects approximated $1,091,000 and $935,000 at June 30, 2018 and 2017, 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 were no draws during the years ended June 30, 2018 and 2017 and there were no outstanding balances at June 30, 2018 and 2017. The expiration date of the agreement is December 31, 2018.

NOTE 6 – NOTE, MORTGAGE, AND BOND PAYABLE

The University had the following notes, mortgage, and bond payable at June 30, 2018 and 2017:

	2018	2017
Note payable	$ 65,091	$ 68,050
Mortgage payable	776,536	808,717
Bond payable	506,666	-
	$ 1,348,293	$ 876,767

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 in June 2021.

(Continued)

NOTE 6 – NOTE, MORTGAGE, AND BOND PAYABLE (Continued)

In November 2017, as part of the reunion between the University and Trinity Lutheran Seminary, the University assumed the bond obligation entered between the Seminary and Columbus-Franklin County Finance Authority in April 2015. The proceeds of the bond arrangement were used by the Seminary to implement an energy program that included a new, independent heating system and internet based building automation system. Repayment is to be made over a 12-year period from the original loan agreement through November 2026. Interest is fixed at 4.35%. The note is secured by the Seminary property at 2199 East Main Street. At June 30, 2018, the balance outstanding was $506,666. The reunion was completed on January 1, 2018 (Note 1).

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE

The University had the following capitalized lease obligations at June 30, 2018 and 2017:

	2018	2017
Capital University 2013 Project	$ 3,350,000	$ 3,470,000
Capital University 2015 Project	27,412,554	28,820,000
	30,762,554	32,290,000
Less: Unamortized debt issuance costs	(103,923)	(115,448)
	$ 30,658,631	$ 32,174,552

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 a 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 Education Facility Variable Rate Revenue Drawdown Bonds (Capital University 2015 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. 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 (2.09213% and 1.22722% at June 30, 2018 and 2017, respectively) plus 85 basis points. The variable rate at June 30, 2018 and 2017 was 2.31% and 1.71%, respectively. The obligation is due December 1, 2031. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with a bank.

(Continued)

NOTE 7 – CAPITALIZED LEASE OBLIGATIONS PAYABLE (Continued)

At June 30, 2018, future principal payments by year and in the aggregate under the capital lease obligations consist of the following:

2019	$ 1,584,495
2020	1,646,685
2021	1,714,015
2022	1,781,499
2023	1,854,129
After 2023	22,181,731
	$ 30,762,554

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

	2018	2017
Cost	$ 81,389,790	$ 81,389,790
Accumulated amortization	(31,306,494)	(28,862,695)
	$ 50,083,296	$ 52,527,095

The interest rate on the 2013 Project lease for the years ended June 30, 2018 and 2017 was 2.05%. Total interest and fees paid and expensed under this lease for the years ended June 30, 2018 and 2017, was $70,782 and $73,879, respectively.

The interest rate on the 2015 Project lease for the years ended June 30, 2018 and 2017 was 2.3% and 1.5%, respectively. Total interest and fees paid and expensed under the lease for the year ended June 30, 2018 and 2017 was $538,646 and $399,733, respectively.

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 a fixed 2.3% interest rate and a variable-rate interest rate indexed to 70% of LIBOR 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, 2018 and 2017, the University recorded unrecognized gain on the position of $440,845 and $429,820, respectively, that is included in Investment return in the Statements of Activities. The fair value of $(13,614) and $(454,459) as of June 30, 2018 and 2017, 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 counterparty; however, the University does not anticipate nonperformance by the counterparty.

(Continued)

NOTE 9 – FINANCIAL ASSETS AND LIQUIDITY

The following table reflects the University's financial assets as of June 30, 2018 and 2017, reduced by amounts not available for general expenditures within one year.

	2018	2017
Financial Assets		
Cash and cash equivalents	$ 5,328,441	$ 7,094,855
Notes and accounts receivable	7,523,341	7,371,508
Pledges receivable	830,427	485,131
Contributions receivable from Remainder trusts	1,176,849	104,018
Beneficial interest in perpetual trusts	8,941,294	5,286,858
Long-term investments	124,205,939	97,106,891
Financial Assets, at year-end	$ 148,006,291	$ 117,449,261
Less those not available for general expenditures within one year:		
Notes and accounts receivable collectible beyond one year	$ (4,559,716)	$ (4,760,330)
Pledges receivable restricted by donor	(820,427)	(464,131)
Donor-restricted endowment funds	(80,663,180)	(52,735,588)
Board-designated endowment funds	(13,864,163)	(16,580,182)
Investments held in trust and annuity reserves	(11,393,512)	(6,857,698)
Financial assets available to meet cash needs for general expenditures within one year	$ 36,705,293	$ 36,051,332

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the University has an unsecured line of credit in the amount of $10,000,000, which it could draw upon. Additionally the University has a board-designated endowment of $13,864,163 as of June 30, 2018. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

NOTE 10 – EXPENSES BY BOTH NATURE AND FUNCTION

Expenses are presented below by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Certain categories of expenses are attributable to one or more functions of the University. These expenses include depreciation and amortization, interest, information technology and facilities operation and maintenance. Depreciation expense is allocated based on square footage occupancy. Interest expense is allocated to the functional categories that have benefited from the proceeds of the related debt. Facilities operation and maintenance represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. Costs of other categories were allocated on the basis of estimates of time and effort.

(Continued)

NOTE 10 – EXPENSES BY BOTH NATURE AND FUNCTION (Continued)

Functional expenses by natural classification for the years ended June 30, 2018 and 2017:

	Program Activities	Supporting Activities			
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	Total Expense
Salary and wages	$ 26,746,425	$ 5,774,466	$ 1,162,220	$ 1,301,869	$ 34,984,980
Employee benefits	8,768,036	2,067,822	432,228	565,604	11,833,690
Services, supplies and other operating expenses	7,519,560	4,957,525	266,531	2,383,909	15,127,525
Occupancy, utilities and maintenance	1,761,828	61,266	-	4,648,189	6,471,283
Depreciation and amortization	8,012,934	377,573	-	-	8,390,507
Interest expense	795,902	37,503	-	-	833,405
	53,604,685	13,276,155	1,860,979	8,899,571	77,641,390
Facilities operation and maintenance	8,212,295	602,781	84,495	(8,899,571)	-
Total Expenses	$ 61,816,980	$ 13,878,936	$ 1,945,474	$ -	$ 77,641,390

	Program Activities	Supporting Activities			
	Academic and Student Services	Administrative Support	Fundraising	Facilities Operation & Maintenance	Total Expense
Salary and wages	$ 25,331,746	$ 5,278,631	$ 1,005,255	$ 1,206,694	$ 32,822,326
Employee benefits	8,892,562	1,058,880	430,534	597,898	10,979,874
Services, supplies and other operating expenses	8,361,152	4,336,319	401,456	2,313,380	15,412,307
Occupancy, utilities and maintenance	1,696,333	226,495	-	4,129,018	6,051,846
Depreciation and amortization	6,924,827	326,301	-	-	7,251,128
Interest expense	487,263	22,960	-	-	510,223
	51,693,883	11,249,586	1,837,245	8,246,990	73,027,704
Facilities operation and maintenance	7,677,815	489,269	79,906	(8,246,990)	-
Total Expenses	$ 59,371,698	$ 11,738,855	$ 1,917,151	$ -	$ 73,027,704

(Continued)

NOTE 11 – PENSION PLAN

The University contributed $2,549,535 and $2,383,218 during the years ended June 30, 2018 and 2017, 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 12 – 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:

	2018	2017
Accumulated benefit obligation		
Accumulated benefit obligation	$ (1,093,552)	$ (1,284,165)
Fair value of plan assets	-	-
Funded status at June 30	$ (1,093,552)	$ (1,284,165)

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

	2018	2017
Accrued benefit cost		
Beginning of year balance	$ (1,284,165)	$ (1,414,190)
Interest cost of on projected plan	(51,367)	(53,032)
Service cost on projected plan	(37,434)	(38,426)
Net periodic pension cost	(88,801)	(91,458)
Employer benefit payments	181,374	199,325
Postretirement benefit obligation related changes other than periodic cost	98,040	22,158
Accrued postretirement liability recognized in the the statement of financial position	$ (1,093,552)	$ (1,284,165)

(Continued)

NOTE 12 – POSTRETIREMENT BENEFIT OBLIGATION (Continued)

Net periodic pension expenses for the year ending June 30, 2019 are expected to be $35,585. Contributions expected to be made next year are approximately $122,822. 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 $(366,917) and $(292,300) at June 30, 2018 and 2017, 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:

	2018	2017
Discount rate	4.25%	4.00%
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	2022	2021

Future benefit payments are projected as follows:

2019	$ 122,822
2020	113,058
2021	116,422
2022	103,419
2023	109,597
2024-2028	535,219

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

	2018	2017
Effect of an increase		
Accumulated postretirement benefit obligation	$ 61,819	$ 69,759
Service cost and interest cost	5,637	6,398
Effect of a decrease		
Accumulated postretirement benefit obligation	(56,817)	(63,891)
Service cost and interest cost	(5,136)	(5,803)

NOTE 13 – NET ASSETS

Net assets without donor restrictions as of June 30, 2018 and 2017 comprise the following:

	2018	2017
Net Assets without Donor Restrictions:		
Undesignated	$ 18,451,053	$ 15,574,340
Board designated endowment	13,864,163	16,580,182
Federal loan program funds	781,011	830,780
Designated - annuity reserves	931,163	926,529
Net investment in property and equipment	91,574,946	69,078,946
	$ 125,602,336	$ 102,990,777

(Continued)

NOTE 13 – NET ASSETS (Continued)

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Net Assets with Donor Restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grants	$ 2,340,226	$ 2,057,236
Academic, Student programs and support	5,507,620	4,843,368
Capital additions	860,714	2,455,237
	8,708,560	9,355,841
Subject to passage of time:		
Contributions receivable from third party trusts	692,527	81,007
Split interest agreements	931,925	441,776
	1,624,452	522,783
Subject to the University's spending policy and appropriation:		
Accumulated gains and term endowments	16,195,953	12,316,993
Endowment funds restricted in perpetuity	68,912,200	43,860,508
	85,108,153	56,177,501
Not subject to spending policy and appropriation:		
Perpetual trusts held by others	8,941,294	5,286,858
Loan funds	1,011,843	495,771
Annuity funds	7,163	51,737
	9,960,300	5,834,366
Total net assets with donor restrictions	105,401,465	71,890,491
	$ 231,003,801	$ 174,881,268

NOTE 14 – 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.

NOTE 14 – ENDOWMENT COMPOSITION (Continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions: Original Gift Amount	With Donor Restrictions: Accumulated Gains (Losses)	With Donor Restrictions: Total with Donor Restrictions	Total Funds
Donor-restricted funds	$ -	$ 68,344,227	$ 16,195,953	$ 84,540,180	$ 84,540,180
Board-designated funds	13,864,163	-	-	-	13,864,163
Beneficial interest in perpetual trusts	-	8,941,294	-	8,941,294	8,941,294
	$ 13,864,163	$ 77,285,521	$ 16,195,953	$ 93,481,474	$ 107,345,637

	Without Donor Restrictions	With Donor Restrictions: Original Gift Amount	With Donor Restrictions: Accumulated Gains (Losses)	With Donor Restrictions: Total with Donor Restrictions	Total Funds
Endowment net assets, beginning of year	$ 16,580,182	$ 49,005,453	$ 12,316,993	$ 61,322,446	$ 77,902,628
Investment return					
Investment income, net	307,829	-	1,492,344	1,492,344	1,800,174
Net appreciation (realized and unrealized gain)	539,844	-	2,634,629	2,634,629	3,174,473
	847,673	-	4,126,974	4,126,974	4,974,647
Change in beneficial interest in perpetual trusts	-	(16,515)	-	(16,515)	(16,515)
Contributions	54,910	3,125,497	-	3,125,497	3,180,407
Appropriation of endowment assets for expenditure	(1,009,839)	-	(2,363,285)	(2,363,285)	(3,373,124)
Transfer of endowment net asset for reinvestment	24,005	169,141	-	169,141	193,146
Reclassification of endowment net assets	(2,632,768)	517,497	2,115,271	2,632,768	-
TLS endowment asset contribution at reunion	-	24,484,448	-	24,484,448	24,484,448
	$ 13,864,163	$ 77,285,521	$ 16,195,953	$ 93,481,474	$ 107,345,637

(Continued)

NOTE 14 – ENDOWMENT COMPOSITION (Continued)

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

		With Donor Restrictions			
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses)	Total with Donor Restrictions	Total Funds
Donor-restricted funds	$ -	$ 43,718,595	$ 12,316,993	$ 56,035,588	$ 56,035,588
Board-designated funds	16,580,182	-	-	-	16,580,182
Beneficial interest in perpetual trusts	-	5,286,858	-	5,286,858	5,286,858
	$ 16,580,182	$ 49,005,453	$ 12,316,993	$ 61,322,446	$ 77,902,628

Endowment net assets, beginning of year	$ 15,086,328	$ 46,494,767	$ 9,107,423	$ 55,602,190	$ 70,688,518
Investment return					
Investment income, net	425,237	60,938	841,447	902,385	1,327,622
Net appreciation (realized and unrealized gain)	2,073,939	-	4,401,051	4,401,051	6,474,990
	2,499,176	60,938	5,242,498	5,303,436	7,802,612
Change in beneficial interest in perpetual trusts	-	303,631	54,540	358,171	358,171
Contributions	45,896	2,146,117	-	2,146,117	2,192,013
Appropriation of endowment assets for expenditure	(1,051,218)	-	(2,087,468)	(2,087,468)	(3,138,686)
	$ 16,580,182	$ 49,005,453	$ 12,316,993	$ 61,322,446	$ 77,902,628

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 14 – 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. The University has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2018, funds with original gift values of $2,619,685, fair values of $2,409,967, and deficiencies of $209,718 were reported in net assets with donor restrictions. At June 30, 2017, funds with original gift values of $3,638,064, fair values of $3,376,839, and deficiencies of $261,225 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations.

NOTE 15 – 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.