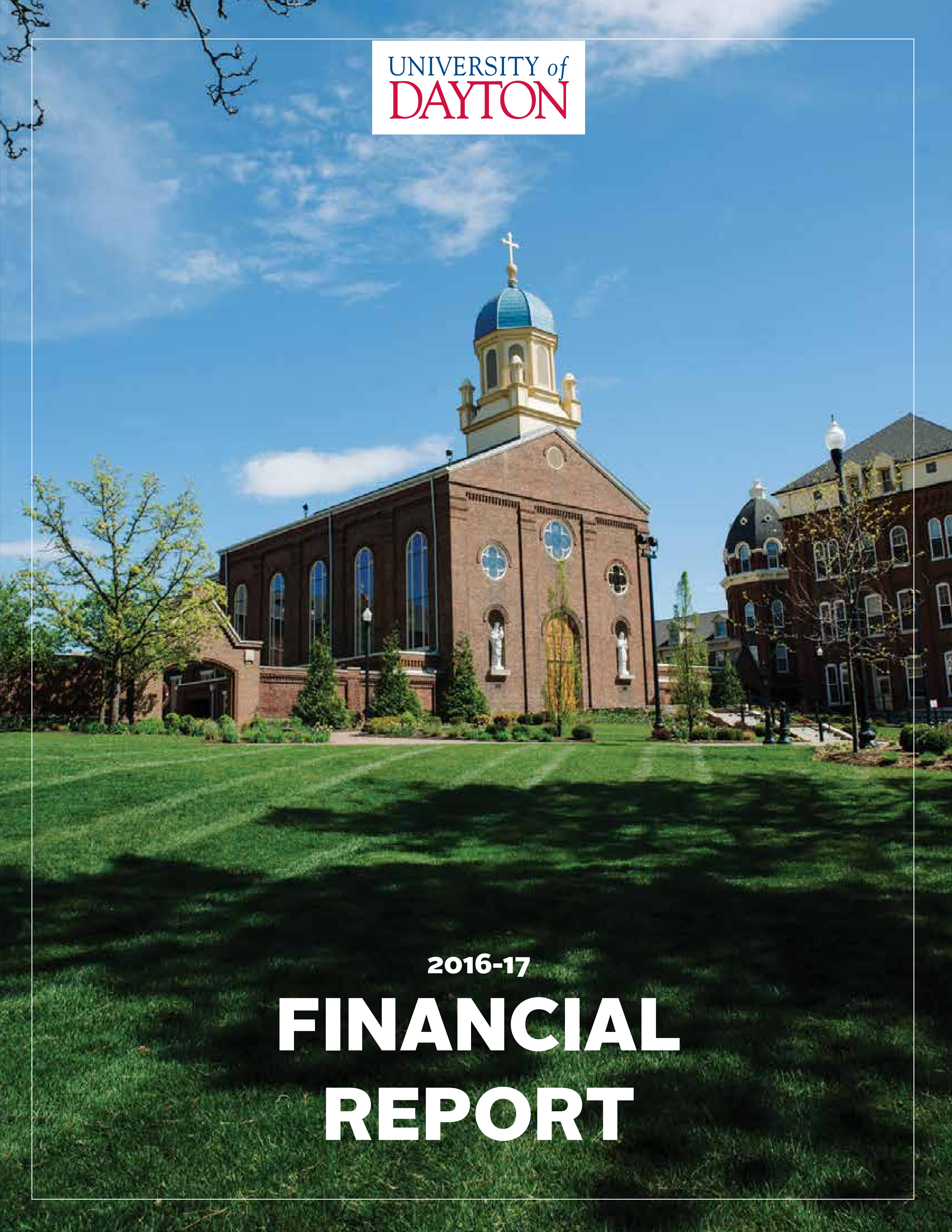

UNIVERSITY of DAYTON

2016-17

FINANCIAL REPORT

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UNIVERSITY OF DAYTON
AT A GLANCE

#1 PARTICIPATION IN INTRAMURAL SPORTS

#1 CATHOLIC UNIVERSITY FOR SPONSORED ENGINEERING R&D

#19 BEST-RUN COLLEGE

96% SUCCESS RATE

10,800+ STUDENTS (UNDERGRADUATE, GRADUATE, LAW)

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I ♥ UD

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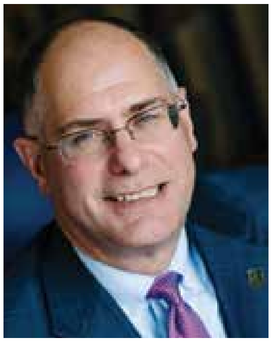
#4 STUDENTS LOVE THEIR SCHOOL

A MESSAGE FROM THE PRESIDENT



During my first year as president, I felt every day the mission of this values-driven institution, values that are deeply held, broadly lived, and give form to our excellence as a university. Those values were the foundation of a year-long visioning process in which the notion of "the common good" — long an essential characteristic of our Catholic, Marianist university — became elevated as a way of animating our teaching, research, scholarship, and community engagement.

Even as the strategic vision was forming, the University community made bold moves toward achieving our dreams. We developed new academic programs, hired outstanding new faculty and staff, implemented efficient new enterprise business processes, and continued to modernize and maintain our physical plant. We set new records in sponsored research and first-year enrollment, most rewardingly enrolling the most racially and socio-economically diverse class in the history of the University. With great intentionality, we are becoming a more diverse, equitable, inclusive campus. This, in turn, makes us a stronger, more innovative campus community.

Looking to the future, we partnered locally to begin the revitalization of the former Montgomery County fairgrounds, a 38-acre site adjacent to campus with outstanding potential for community partnerships and economic development. We began planning a dynamic entrepreneurship and innovation center to anchor the redevelopment of the historic downtown Dayton Arcade.

Our annual sponsored research volume climbed to nearly $135 million — a new record — through the research and scholarship of faculty, staff, and researchers across campus. We're proud of our national rankings: first among all Catholic universities for sponsored engineering research and development; second in the nation in federally sponsored materials R&D; and ninth in the nation for sponsored research among private research universities without medical schools.

We embarked on a $72 million, three-year renovation of the iconic University of Dayton Arena to transform it into a state-of-the-art facility that will dramatically improve the nearly 50-year-old infrastructure. We continue to be one of the best in the nation at fostering academic achievement for student-athletes, leading all Ohio Division I universities and ranking 36th nationally for graduating student-athletes.

Our students are the heart of all that we do. They are the living embodiment of our commitment to the common good. They use their talents and gifts in service to others — whether it's launching a fair trade campaign on campus, transforming a former public school site into an urban farm, or traveling to India to work on solar refrigeration that will keep vaccines cool during electricity blackouts. They are not here solely to get a degree to become rich or achieve personal fame or glory. They are here to become educated so that they can make a difference.

Making a difference through building community is the thread that is woven throughout our strategic vision and all that we do. As we embark on the broader realization of that vision, our commitment to the common good is igniting the imagination, the creativity, and the drive of the students, faculty, staff, and alumni of the UD community.

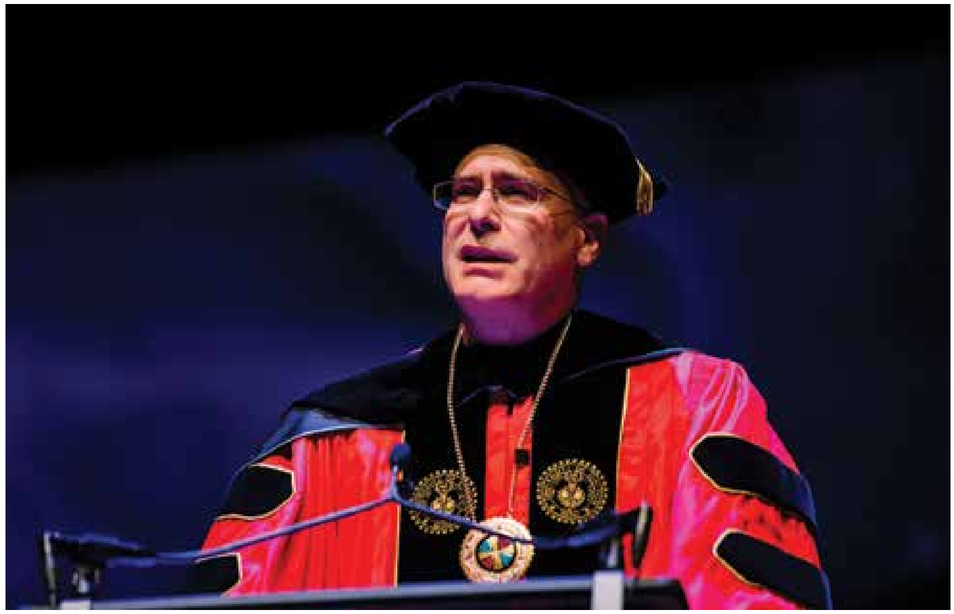
Eric F. Spina
President

2016-17

UNIVERSITY HIGHLIGHTS

A NEW LEADER

In a four-day celebration in April, Eric F. Spina was inaugurated as our 19th president. With prayers, service, symposia, music, dancing and a lively installation ceremony, the campus community and the Dayton area celebrated the University's past, present and future, welcoming a new leader who shared a new strategic vision — to work collaboratively to become the University for the Common Good.

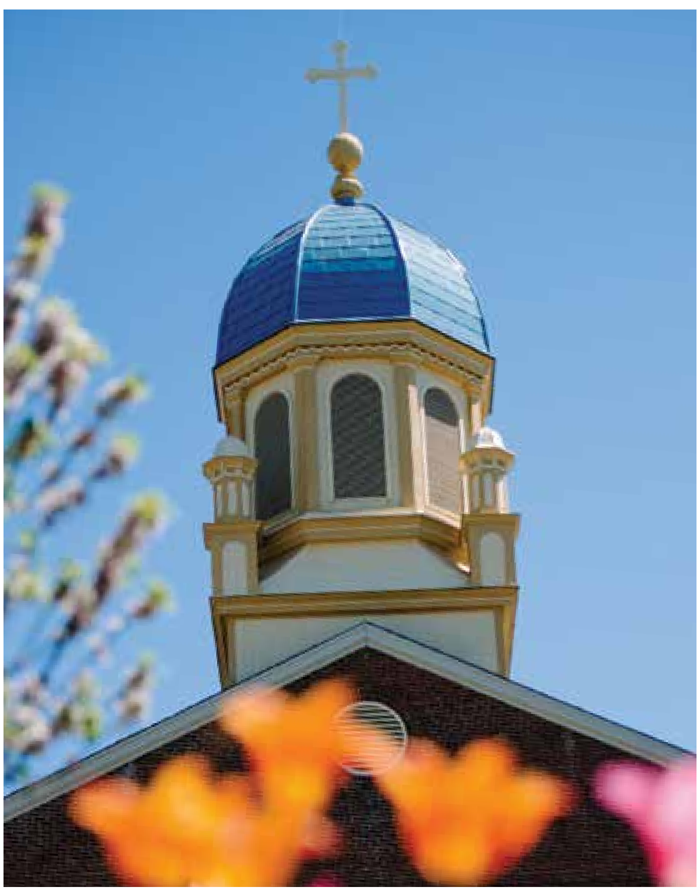


VISION: FOR THE COMMON GOOD

More than 3,000 students, faculty, staff, board members, alumni, donors and community leaders envisioned the University in 20 years mapping an ambitious strategic vision — to become the University for the Common Good. The needs of humanity will shape our curricula, research, partnerships and community engagement locally, nationally and globally.

TUITION INNOVATION

A bold commitment to transform the University's tuition plan showed impressive results this year. The class of 2017 — the first to enroll under our no-fee, transparent tuition plan — borrowed nearly $6 million less and posted an 8 percentage point increase to the four-year graduation rate. The Chronicle of Higher Education wrote about the success of the program as a noteworthy innovation in higher education.



RESEARCH RESULTS

The University of Dayton Research Institute celebrated its 60th anniversary by marking the $2 billion milestone in cumulative sponsored research and a new one-year record of nearly $135 million in sponsored research. The University of Dayton(UD) ranks No. 2 in the nation for federally sponsored materials research and development. Nationally, UD ranks No. 1 for sponsored engineering research and development, amongst all universities in Ohio and all catholic universities in the nation.

INVESTING IN THE FUTURE

A $72 million transformation of the UD Arena was launched to sustain its place as one of the best venues for college basketball in the nation. We broke ground on an $11.2 million four-story apartment building in the student neighborhood and built six new, environmentally friendly student houses. A $7 million renovation to Kennedy Union created four new mini-restaurants, increased food options and expanded areas for student activities.

2016-17

FINANCIAL HIGHLIGHTS

COMPARATIVE SUMMARY INFORMATION
(ALL DOLLARS IN THOUSANDS)

	2012-13	2013-14	2014-15	2015-16	2016-17
Endowment - Market	442,252	510,107	500,407	473,123	524,186
Physical Plant - Carrying Value (Excluding Depreciation)	877,427	918,237	958,148	1,003,221	1,063,554
Physical Plant - Insurable Value	1,086,740	1,105,769	1,146,229	1,167,164	1,137,027
Long Term Debt	380,966	367,783	407,078	394,690	380,193
Enrollment - Full Time - Undergraduate	7,479	7,475	7,918	8,226	7,896
Enrollment - Law School	419	338	294	267	279
Enrollment - Graduate School	2,698	2,522	2,520	2,318	2,196
Total Enrollment - Full and Part Time	11,186	10,857	11,368	11,271	10,118
Degrees Awarded - Undergraduate	1,856	1,953	1,924	2,055	2,036
Degrees Awarded - Graduate	1,042	1,052	951	961	939

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2017

MESSAGE FROM THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATIVE SERVICES

In addition to the programmatic successes President Spina described, I am pleased to report that our operating and financial results were very strong. Of particular note, leading indicators highlight continued growth in our fiscal strength. These include an overall University operating margin of 8.0% driven by continued revenue expansion combined with appropriate fiscal stewardship and cost controls. Through strong long term investment performance, our assets grew by more than $120 million while our overall liabilities decreased with the retirement of nearly $15 million in long-term debt.

The following discussion and analysis provides a more detailed, in-depth overview of the financial position of the University of Dayton for the year ended June 30, 2017 with comparative information for the previous year ended June 30, 2016. This overview has been prepared by management under my direction and should be read in conjunction with the audited financial statements and the notes that follow this section.

Andrew T. Horner
Vice President for Finance &
Administrative Services

Introduction

The University of Dayton is a private Roman Catholic national research university in Dayton, Ohio. Founded in 1850 by the Society of Mary (the Marianists), it is one of three Marianist universities in the nation and the largest private university in Ohio. The university's campus spans 388 acres in Dayton and occupies a building at the University of Dayton China Institute in Suzhou Industrial Park, China. The University has nearly 7,900 full time undergraduate students, 2,200 graduate students and 450 part time students with a wide variety of backgrounds, drawn from across the United States and over 70 countries. The University offers more than 70 academic programs in arts and sciences, business administration, education and health sciences, engineering and law.

Financial Highlights

Fiscal year 2017 was another strong year for financial operations for the University, with $43.1 million in unrestricted operating margin compared to $57.6 million in fiscal year 2016. The major drivers of these strong operating results included consistent levels of undergraduate enrollment and retention, significant growth in sponsored research, and effective cost controls that slowed expense growth in several categories. Externally sponsored research and development revenue grew 15.7% to $134.6 million from $116.3 million in 2016. These results allowed the university to continue to diversify its revenue base, continuing its objective of reducing its overall reliance on undergraduate tuition.

Total assets increased from $1.54 billion to $1.66 billion and total net assets increased by 14.2% or $132.9 million. This growth is primarily attributed to an increase in the value of the University's long term investment pool and improvements to land and buildings. Liabilities decreased $10.8 million to $593.5 million, primarily driven by a reduction in long term debt of $14.5 million to $380.2 million. The University generated $58.4 million in cash from operating activities compared to $44.4 million in 2016. Significant financial events during fiscal year 2017 included:

- The University's enrollment dropped slightly from 2016 to 2017 at both the undergraduate and graduate levels. Total enrollment was 10,118. The number of full-time undergraduate students from outside Ohio increased to 56.7% from 55.5% in the previous year. International students comprised 9.9% of the undergraduate student population, a decline from 11.5% in 2016 that mirrors national and regional trends.

- Investments increased by $91.1 million (12.8%) to a total of $802.0 million. The endowment, which is the largest component of investments, increased by $51.1 million (10.8%) to a total of $524.2 million. The primary drivers of the endowment increase include investment gains for $51.7 million, gifts and other additions of $9.4 million and investment income of $9.4 million. This strong growth supported the University's endowment draw of $19.4 million.

- The University entered into a joint venture with an equal partner to execute the purchase of approximately 38 acres located adjacent to campus. The University presented investment assets of $7.5 million and investment income of $2.3 million in its financial statements for 2017. The joint venture moves into a planning phase for the real estate beginning in fall 2017.

- The University and its partner substantially completed renovations to the hotel adjacent to campus. Assets grew in this entity to $40.3 million from $34.1 million due to this renovation. These assets, along with the liabilities of $25.9 million and net operating margin of $0.1 million were consolidated into the University's financial statements. The minority partner has an interest of $0.1 million.

- During fiscal year 2017, the University completed the purchase of the building it occupies in Suzhou, China for the University of Dayton China Institute (UDCI). UDCI has assets of $9.7 million which are consolidated into the University's financial statements.

- The University began an extensive Arena Transformation project in spring 2017. This is a multi-phase project estimated to cost $71.8 million. The first phase was completed this summer in time for the start of the basketball season. Phases two and three will follow over the next two summers with completion expected in fall 2019.

- The University added $40.8 million in fixed assets during fiscal year 2017. These additions included the previously mentioned hotel renovation and UDCI building purchase, as well as ongoing renovations for research labs, teaching labs, and residential facilities.

- In the fall of 2016, the University issued $20.9 million in bonds in order to refinance a portion of existing revenue bonds. This resulted in an annual interest savings of approximately $600,000 per year and a net present value savings of $5.5 million over ten years.

Consolidated Statements of Financial Position

- Total assets increased by $122.0 million to $1.66 billion. Investment return of $61.5 million was a primary driver of this increase. Other increases included net fixed asset growth of $40.8 million and an increase in pledges receivables for the Arena Transformation and a proposed performing arts center that is currently in the planning stages.

- Total liabilities decreased by $10.8 million. The 2017 Bond principal payments of $11.8 million accounted for nearly all of this decrease. The decrease in the accrued postretirement obligation of $7.9 million and the change in unrealized loss on interest rate swap obligations of $6.1 million offset the increase in accounts payable of $13.0 million due to increased construction activity on campus and at the hotel compared to the prior year.

- Total unrestricted net assets incresed by $101.2 million compared to $5.1 million in 2016. This increase was due to the strong operating returns plus the strong non-operating gains on investments. Also contributing were the changes in post-retirement benefit obligations and the changes in the unrealized loss on interest rate swap agreements.

- Restricted and temporarily restricted net assets increased by $31.7 million due to the pledges received for the Arena Transformation and an arts center along with strong investment returns on the true endowments. This compared to a decrease of $16.3 million in restricted and temporarily restricted net assets in 2016.

Consolidated Statements of Activities

- Total revenues increased from $519.1 million to $549.3 million. Net tuition revenue decreased from $214.3 million in 2016 to $197.5 million in 2017. This decrease was due to lower enrollment and higher institutional financial aid. Private gifts, grants and other increased to $80.4 million from $53.1 million in fiscal year 2017. This increase was due to increased pledges for the Arena Transformation and an arts center and the recognition of previously deferred revenue on special projects. Government grants and contracts increased by $17.1 million (15.7%) to a total of $126.1 million. This was due to continued record governmental contract activity in the University's Research Institute as well as on campus faculty-driven research.

- While operating revenues increased by 5.8%, operating expenditures increased by 7.1% from $459.9 to $492.5 million driven primarily by personnel costs and contracting and maintenance activity. Salaries and benefits grew from $256.1 to $268.4 million. Contract services and maintenance grew from $63.6 to $73.5 million, largely driven by increased subawards issued on sponsored research contracts and grants. Other expenditures increased from $49.3 million to $58.5 million due to the loss on disposal of several buildings which were undergoing renovations throughout the year and other ongoing maintenance. The University experienced controlled costs in the remaining cost categories due to the implemented fiscal stewardship practices and additional procurement strategies.

Consolidated Statements of Cash Flows

- Cash decreased by $27.9 million in fiscal year 2017. The $58.4 million of cash generated by operations was more than offset by the $8.0 million of cash used for investments, the fixed asset acquisitions of $67.9 million and cash used for financing activities of $10.4 million, which included a reduction of long-term debt of approximately $14.5 million.

2016-17

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of Dayton
Dayton, Ohio

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of the University of Dayton which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statement of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

RSM US LLP

Dayton, Ohio
October 17, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	2017	2016
Assets		
Cash	**$ 46,522**	$ 74,443
Collateral held for securities lending agreement (Note 3)	**3,875**	1,465
Accounts receivable - net (Note 4)	**54,168**	44,637
Pledges receivable - net (Note 4)	**34,158**	17,882
Prepaid expenses, inventories and other	**6,606**	15,878
Notes receivable - net (Note 4)	**37,848**	38,713
Investments (Note 5 and 11)	**801,990**	710,927
Land, buildings, and equipment (Note 7)	**674,337**	633,548
Total assets	**$ 1,659,504**	$ 1,537,493
Liabilities		
Accounts payable	**$ 30,169**	$ 17,126
Accrued payroll and compensated absences	**21,565**	21,772
Liability under securities lending agreement (Note 3)	**4,083**	1,698
Other liabilities	**20,092**	17,597
Deferred revenue and student deposits	**22,685**	22,861
Split interest agreement obligations (Note 6)	**12,083**	12,003
Interest rate swap obligations (Note 9)	**12,089**	18,157
Indebtedness (Note 8)	**380,193**	394,690
Accrued postretirement benefits (Note 10)	**78,611**	86,526
Advances from government for federal loans	**11,955**	11,910
Total liabilities	**593,525**	604,340
Net Assets (Note 12)		
Unrestricted	**803,164**	702,012
Temporarily restricted	**98,986**	70,572
Permanently restricted	**163,707**	160,456
Noncontrolling Interest	**122**	113
Total net assets	**1,065,979**	933,153
Total liabilities and net assets	**$ 1,659,504**	$ 1,537,493

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenues, gains and other support:				
Student tuition and fees	$ 363,877	$ -	$ -	**$ 363,877**
Less: student aid	(166,397)	-	-	**(166,397)**
	197,480	-	-	**197,480**
Private gifts, grants and other (Note 14)	53,687	23,688	3,035	**80,410**
Private research contracts	10,135			**10,135**
Government grants and contracts	126,060	-	-	**126,060**
Investment return designated for current operations (Note 5)	34,254	-	-	**34,254**
Auxiliary enterprises	100,973	-	-	**100,973**
	522,589	23,688	3,035	**549,312**
Net assets released from restrictions	12,994	(13,158)	164	**-**
Total revenues, gains, and other support	535,583	10,530	3,199	**549,312**
Expenditures:				
Salaries and benefits	268,373	-	-	**268,373**
Interest expense	18,249	-	-	**18,249**
Depreciation	27,948	-	-	**27,948**
Cost of sales	13,748	-	-	**13,748**
Contract services and maintenance	73,541	-	-	**73,541**
Supplies	14,959	-	-	**14,959**
Utilities and communications	17,227	-	-	**17,227**
Other expenditures	58,463	-	-	**58,463**
	492,508	-	-	**492,508**
Change in net assets from operations	43,075	10,530	3,199	**56,804**
Non-operating activities:				
Investment return net of amounts designated for current operations (Note 5)	33,502	27,964	52	**61,518**
Actuarial change in annuities		(1,308)		**(1,308)**
Change in unrealized gain on interest rate swap agreements	6,068			**6,068**
Change in postretirement benefit obligation (Note 10)	9,744			**9,744**
Net assets released from restrictions	8,772	(8,772)		**-**
Change in non-operating activities	58,086	17,884	52	**76,022**
Change in net assets	101,161	28,414	3,251	**132,826**
Less: change in net assets attributable to the noncontrolling interest	9			**9**
Change in net assets attributable to the University of Dayton	101,152	28,414	3,251	**132,817**
Net assets at beginning of year	702,012	70,572	160,456	**933,040**
Net assets at end of year	$ 803,164	$ 98,986	$ 163,707	**$ 1,065,857**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenues, gains and other support:				
Student tuition and fees	$ 365,697	$ -	$ -	**$ 365,697**
Less: student aid	(151,440)	-	-	**(151,440)**
	214,257	-	-	**214,257**
Private gifts, grants and other (Note 14)	44,420	3,671	4,976	**53,067**
Private research contracts	9,184	-	-	**9,184**
Government grants and contracts	108,970	-	-	**108,970**
Investment return designated for current operations (Note 5)	32,718	-	-	**32,718**
Auxiliary enterprises	100,893	-	-	**100,893**
	510,442	3,671	4,976	**519,089**
Net assets released from restrictions	7,093	(7,093)		**-**
Total revenues, gains, and other support	517,535	(3,422)	4,976	**519,089**
Expenditures:				
Salaries and benefits	256,070	-	-	**256,070**
Interest expense	18,109	-	-	**18,109**
Depreciation	26,857	-	-	**26,857**
Cost of sales	14,427	-	-	**14,427**
Contract services and maintenance	63,574	-	-	**63,574**
Supplies	14,365	-	-	**14,365**
Utilities and communications	17,184	-	-	**17,184**
Other expenditures	49,349	-	-	**49,349**
	459,935	-	-	**459,935**
Change in net assets from operations	57,600	(3,422)	4,976	**59,154**
Non-operating activities:				
Investment return net of amounts designated for current operations (Note 5)	(47,910)	(5,962)	20	(53,852)
Actuarial change in annuities		(2,641)		(2,641)
Change in unrealized loss on interest rate swap agreements	(5,039)			(5,039)
Bond issuance cost adjustment	(5,142)			(5,142)
Change in postretirement benefit obligation (Note 10)	(3,556)			(3,556)
Net assets released from restrictions	9,223	(9,223)		-
Change in non-operating activities	(52,424)	(17,826)	20	(70,230)
Change in net assets	5,176	(21,248)	4,996	(11,076)
Less: change in net assets attributable to the noncontrolling interest	101			101
Change in net assets attributable to the University of Dayton	5,075	(21,248)	4,996	(11,177)
Net assets at beginning of year	696,937	91,820	155,460	944,217
Net assets at end of year	$ 702,012	$70,572	$ 160,456	$ 933,040

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS)

	2017	2016
Operating activities:		
Change in net assets	**$ 132,826**	$ (11,076)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**27,948**	26,857
Amortization	**(920)**	(990)
Gifts for restricted purposes	**(3,035)**	(4,976)
Net realized and unrealized (gains) losses on investments	**(82,443)**	32,536
Income restricted for long-term investment	**(602)**	(859)
Change in postretirement benefit obligation	**(7,915)**	5,607
(Gain) loss on interest rate swap agreements	**(6,068)**	5,039
Cash provided by operating assets and liabilities:		
Increase in receivables	**(25,807)**	(22)
Decrease (increase) in prepaid expenses, inventories and other	**9,160**	(7,922)
Increase (decrease) in accounts payable, accrued liabilities, and other liabilities	**15,411**	(1,577)
(Decrease) increase in deferred revenue and student deposits	**(176)**	1,787
Net cash provided by operating activities	**58,379**	44,404
Investing activities:		
Income restricted for long term investment	**602**	859
Proceeds from the sale of investments	**327,490**	626,890
Purchases of investments	**(336,135)**	(613,282)
Additions of land, buildings and equipment, net of nominal disposals	**(67,886)**	(52,236)
Net cash used in investing activities	**(75,929)**	(37,769)
Financing activities:		
Increase in advances from government for federal loans	**45**	57
Gifts for restricted purposes	**3,035**	4,976
Decrease in notes receivable	**865**	1,034
Proceeds on indebtedness	**20,870**	28,000
Premium on bond issuance	**(344)**	-
Payments on indebtedness	**(34,842)**	(39,285)
Net cash used in financing activities	**(10,371)**	(5,218)
Net (decrease) increase in cash	**(27,921)**	1,417
Cash:		
Beginning	**74,443**	73,026
Ending	**$ 46,522**	$ 74,443

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 1. Description of the Organization

The University of Dayton (the University) is an independent, coeducational institution founded and sponsored by the Society of Mary (the Marianists), a Roman Catholic Institute of Consecrated Life. The University is located in Dayton, Ohio and is one of the nation's largest Catholic institutions of higher learning. Its students are actively recruited from all states, as well as from over seventy foreign nations. The student population approximates 7,900 undergraduate and 2,200 graduate students. The University awards baccalaureate, masters, and selected doctoral degrees in programs within the College of Arts and Sciences and four professional schools: the School of Business Administration, the School of Education and Health Sciences, the School of Engineering, and the School of Law. Through these academic units and its Research Institute, the University conducts a wide variety of academic and scientific research.

The accompanying consolidated financial statements present the accounts of the following entities, hereafter referred to as the University:

- The University of Dayton;
- Nine legal limited liability companies that own interests in real estate near the University's campus, and of which the University is the sole member;
- UDCI, Ltd., a limited liability company established to hold the University's interests in its operations in China, and of which the University is the sole member;
- The River Park Community Corporation, a separate not for profit corporation engaged in activities related to the University, and of which the University is the sole member;
- 111 River Park, LLC, a wholly owned affiliate of The River Park Community Corporation;
- River Park Development II, LLC, a wholly owned affiliate of The River Park Community Corporation;
- 1414 South Patterson, LLC, a limited liability company established to hold the University's interests in a real estate joint venture, and of which the University is the sole member; and
- Dayton Hotel II, LLC and Concord Dayton Hotel II, LLC, both of which are controlled by 1414 South Patterson, LLC and established to own and operate a hotel adjacent to the University's campus.

Note 2. Summary of Significant Accounting Policies

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

Basis of presentation: The consolidated financial statements include the accounts of all controlled affiliates that are required to be consolidated, and all intercompany transactions and balances have been eliminated. Investments in joint ventures for which the University does not have control or is not the primary beneficiary, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Accordingly, the University's share of net earnings and losses from these ventures is included in the consolidated statements of activities.

Note 2. Summary of Significant Accounting Policies (Continued)

Net assets: Net assets are classified into three categories: unrestricted, which have no donor-imposed restrictions; temporarily restricted, which have donor-imposed restrictions that will expire in the future; and permanently restricted, which have donor-imposed restrictions that do not expire.

The expiration of a donor-imposed restriction on a contribution or 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 long-lived assets, such as land, buildings, or equipment without donor stipulations concerning the use are reported as revenue of the unrestricted net asset class. Such gifts are recorded at fair value at the date of donation. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted revenue. The temporary restriction is considered released upon acquisition of the asset.

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. Contributions received with donor-imposed restrictions, where the restrictions are met in the same fiscal year, are reported as unrestricted net assets.

Measure of operations: The change in net assets from operations excludes certain activity. Amounts not included in the measure of operations include investment return in excess of or deficient from amounts designated for current operations, changes in actuarial valuation of annuities, changes in the net unrealized gain (loss) on interest rate swap agreements, change in postretirement benefit obligation, bond issuance cost adjustment and change in endowments operating at a loss. The Board of Trustees designates a specified amount of the expected investment return in support of current operations. Any excess is reinvested to maintain earnings growth for support of future operations. Amounts designated for current operations include the established endowment appropriation plus amounts designated for certain expenses, including interest on indebtedness and accrued postretirement benefits.

Related-party transactions: The Marianists are a separate entity from the University. Members of the Marianists may serve on the faculty and staff of the University under employment agreements; however, they are not eligible to participate in the University's retirement programs. On an annual basis, the University reimburses the Marianists an amount equivalent to the salaries and benefits of employed members. The reimbursement was $1,240 in 2017 and $1,399 in 2016. The University's intent is to compensate the Marianists at a rate comparable to University employees in similar positions. The Marianists contribute funds to the University, which are recorded as gifts. These gifts were $352 and $847 in 2017 and 2016, respectively.

The University is a party to a joint venture agreement with another not for profit entity to perform contract research for the Federal government. The University is a 50% member of this joint venture limited liability company, and also a subcontractor to this entity. The University recognized government contract revenue of $4,993 in 2017 and $8,347 in 2016 from this entity.

Liquidity: Assets and liabilities are listed in their estimated order of liquidity. For accounts with undeterminable liquidity, the University has made additional disclosures in the accompanying notes to the consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition: The University records tuition and fees collected prior to the beginning of each academic semester as deferred revenue. Income from tuition and fees is recognized at the beginning of the semester when classes begin. Tuition and fees relating to summer sessions that begin after June 30 are recorded in the consolidated statements of financial position as deferred revenue.

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances that represent fair value. Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted revenue. Conditional promises are recorded when donor stipulations are substantially met.

Grants and contracts consist primarily of contractual agreements with governmental and private entities for the conduct of research and other sponsored programs. These agreements represent exchange transactions between the University and the grantors and contractors and are, accordingly, included in unrestricted net assets. Revenue is recognized on grants and contracts as expenses are incurred, performance or obligations are met and any payments received in advance of expenses being incurred are reflected as deferred revenue.

Revenue from auxiliary enterprises is recognized as goods or services are provided.

Cash and cash equivalents: Cash and cash equivalents include all cash and highly liquid investments that are neither internally nor externally restricted. The University considers highly liquid investments to be cash equivalents when they are both readily convertible to cash and so near to maturity (typically within 90 days) when acquired that their value is not subject to substantial risk due to changes in interest rates.

Accounts receivable, net: Accounts receivable consist of amounts due to the University for tuition, grants and contracts, and other revenue generated by the University. The University has recorded an allowance for doubtful accounts based on management's assessment of historical and net collections considering historical business and economic conditions. Amounts are recorded at estimated net realizable value.

Pledges receivable, net: Pledges are recorded as revenue in the year the pledge is made. Unconditional donor pledges to give cash, marketable securities, and other assets are reported using a discounted cash flow approach. The discount rates used range from 1.7% to 7.0% depending on the year the pledge was received. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restriction that limit the use of the donated assets are reported as either temporary or permanently restricted support until the donor restriction expires. Most unconditional promises are designated for scholarships and general operating purposes. An allowance is recorded for amounts deemed uncollectible.

Inventories: Inventories are stated at the lower of cost or market. The auxiliary operations determine cost using the first in, first out method. The University determines cost using an average cost method.

Notes receivable, net: Notes receivable consist of a loan associated with the office and research facility and from student loans under government loan programs. An allowance for doubtful accounts has been recorded based on management's assessment of historical and net collections considering historical business and economic conditions. The notes are recorded at estimated net realizable value.

Note 2. Summary of Significant Accounting Policies (Continued)

Investments: The University invests its endowed funds and other funds in a variety of marketable securities and alternative investments. Investments in marketable debt and equity securities are carried at market value based on quoted market prices on the last business day of the fiscal year.

Investment in alternative investments include limited partnerships, private equity, hedge funds, and real estate partnerships, do not have readily determinable fair values, and are carried at the University's proportionate share of the fund's net asset value used as a practical expedient. Such fair value estimates are based upon the funds' net asset value at its year end, adjusted for any contributions, distributions and earnings between the funds' year end and the University's year end. In management's opinion, the stated values approximate fair value. Due to the inherent uncertainty of valuation, the estimated values may differ from values that would have been used had a readily available market value for the investments existed, and such differences may be material.

The weighted average method is used for purposes of determining gains and losses on the sale of marketable securities. Interest and dividend income is recorded when earned.

The University also holds certain real estate investments that are not readily marketable. These investments are accounted for on the equity method.

Assets held by others and split interest agreements: The University has entered into split interest agreements, including charitable remainder trusts and gift annuities which provide that the University make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. The University is also the beneficiary of charitable trusts held by third party trustees. Assets held under these agreements are included in investments and are recorded at fair value. At the date of contribution, the University records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries. The split interest agreement obligation is recorded in other liabilities on the consolidated statements of financial position. Obligations under split interest agreements are recorded at the present value of estimated payments (based on actuarially determined life expectancy tables, trust asset growth assumptions, and discount rates ranging from 1.2% to 10.0%). The University believes its valuation methods are appropriate and consistent with similar agreements held by other institutions and the use of different methodologies or assumptions to determine the fair value of similar liabilities could result in a different fair value measurement at the reporting date. The annual change in the value of the split interest agreement obligation to life beneficiaries is reflected in the consolidated statement of activities and represents the change in actuarial assumptions as well as the revenues and expenses of the trust.

In addition, the University has assets held by others which represent the present value of the estimated income the University will receive in the future from beneficial interest in trusts for which third parties serve as the trustees.

Land, buildings, and equipment: Property and equipment is recorded at cost. Depreciation of buildings, land improvements, and equipment is recorded using the straight-line method over the estimated useful lives of 45 years, 20 years, and 3 to 15 years, respectively. The cost of repairs and maintenance is expensed in the year incurred.

Advances from government for federal loans: Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students. Any funds collected from students may be re-loaned. These funds are ultimately refundable to the government and are recorded as a liability in the accompanying consolidated statements of financial position. The Federal Perkins Loan Program expired September 30, 2017 and the University may not disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The University will be liquidating its Federal Perkins Revolving Loan Fund at the direction of the Department of Education. The liquidation will likely involve the University assigning all eligible outstanding loans to the Department of Education and the remittance of federal share of remaining Perkins cash assets to the Department of Education.

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: The University is recognized by the Internal Revenue Service (IRS) as an organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code (IRC). The University is a public charity as defined by IRC Section 170(b)(1)(A)(ii). The University is exempt from federal income taxes except to the extent of income derived from unrelated business activities. Unrelated business income is not material to the financial statements. The entities for which the University is the sole member are disregarded for tax purposes. Any activity from these entities is included in the tax return of the University.

The River Park Community Corporation has been recognized by the Internal Revenue Service as a title holding corporation exempt from federal taxation under Section 501(c)(2) of the IRC. The River Park Community Corporation is exempt from federal income taxes except to the extent of income derived from unrelated business activities.

Tax returns filed by the University and River Park Community Corporation are subject to examination by the IRS up to three years from the filing date of each return. Forms 990 and 990T filed by the entities are no longer subject to examination for the years 2013 and prior.

The University completed an analysis of its tax position, in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*, and determined that no amounts were required to be recognized in the consolidated financial statements as of June 30, 2017 or 2016.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates are used to determine the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also are used to determine the reported amounts of revenue, gains, and other support and expenditures during the reporting period. The actual results could differ from these estimates.

Fair value measurements: The University follows the provisions of Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities

Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals

Level 3 – Inputs are unobservable for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

Note 2. Summary of Significant Accounting Policies (Continued)

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

New accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The University is currently in the process of assessing what impact this new standard may have on its consolidated financial statements and determining what transition method will be used.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The University is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This accounting standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The standard sets forth improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 will be effective for years beginning after December 15, 2017. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

Reclassifications: Certain reclassifications have been made to the 2016 consolidated financial statement presentation to conform to the 2017 presentation. Such reclassifications had no effect on the previously stated change in net assets.

Note 3. Securities Lending Program

The University participates in a pooled securities lending program, whereby securities owned by the University are loaned to other entities as part of a pool that is managed by a custodian bank. The pool requires that cash and non-cash collateral from the borrower be placed with a third party trustee in an amount equal to 102% of the market value of the loaned securities for securities of United States issuers, and 105% of the market value of the loaned securities for securities of non-United States issuers. The University maintains effective control of the loaned marketable securities through its custodian during the term of the arrangement in that they may be recalled at any time. Under the terms of the arrangement, the borrower must return the same, or substantially the same, marketable securities that were borrowed.

(IN THOUSANDS)

Note 3. Securities Lending Program (Continued)

The custodian invests the cash collateral received in government securities, overnight commercial paper and other short-term overnight investments on behalf of the University and other members of the securities lending pool. The market value of cash collateral held for loaned marketable securities is reported as collateral held for securities lending agreement on the accompanying consolidated statements of financial position. A corresponding liability is also recorded for repayment of such collateral upon settlement of the securities lending arrangements. The market value of noncash collateral is not recorded in the consolidated statements of financial position in accordance with ASC 860, *Transfers and Servicing.*

At June 30, 2017, securities on loan totaled $15,290 for which a total amount of $15,630 of collateral was posted by the borrowers; the market value of the cash collateral held was $4,083. At June 30, 2016, securities on loan totaled $5,624 for which a total amount of $5,750 of collateral was posted by the borrowers; the market value of the cash collateral held was $1,698. As a result of the changes in the fair value of the invested cash collateral at June 30, 2017 and 2016, the University recorded gains of approximately $25 and $14, respectively. The results of changes in the fair value of invested collateral are included in investment returns net of amounts designated for current operations on the consolidated statement of activities. These amounts are treated as noncash items for purposes of recording cash flows. The market value of noncash collateral at June 30, 2017 and 2016 was $11,547 and $4,051, respectively.

Note 4. Receivables

Accounts receivable, net: Accounts receivable consist of the following as of June 30:

	2017	2016
Amounts due from students for tuition and other costs	$ 7,560	$ 7,932
Grants and contracts	37,127	29,610
Related entities	5,315	4,575
Other	5,639	4,261
	55,641	46,378
Less: allowance for doubtful accounts	(1,473)	(1,741)
Total accounts receivable, net	$ 54,168	$ 44,637

Pledges receivable, net: Outstanding pledges receivable, which are discounted at rates ranging from 1.2% to 7.0%, are as follows:

	2017	2016
Less than one year	$ 15,097	$ 11,596
One to five years	16,233	7,114
More than five years	6,020	566
	37,350	19,276
Less: discount on pledges	(1,394)	(453)
Less: allowance for uncollectible pledges	(1,798)	(941)
Total pledges receivable, net	$ 34,158	$ 17,882

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 4. Receivables (Continued)

Notes receivable, net: Notes receivable consist of the following as of June 30:

	2017	2016
Office and research facility (Note 16)	$ 26,710	$ 27,315
Student loans under government loan programs	13,012	13,272
	39,722	40,587
Less: allowance for doubtful accounts for student loans	(1,874)	(1,874)
Total notes receivable, net	$ 37,848	$ 38,713

Note 5. Investments

The carrying value of investments at June 30 is reflected in the following table:

	2017	2016
Cash and cash equivalents	$ 27,868	$ 20,458
Fixed maturity:		
US Treasuries	913	6,708
Mutual funds and pooled accounts:		
Domestic	25,305	25,353
International	13,089	13,213
Individual securities:		
Domestic	102,732	98,964
Total fixed maturity	142,039	144,238
Equities:		
Mutual funds and pooled accounts:		
Domestic	35,892	32,905
International	204,773	157,514
Individual securities:		
Domestic	159,080	119,694
Total equities	399,745	310,113
Exchange traded commodities and real assets	14,122	34,638
Hedge funds	146,082	124,551
Private equity funds	55,406	60,221
Real estate and real estate funds	14,275	14,750
Assets held by others	1,013	1,024
Other	1,440	934
Total	$ 801,990	$ 710,927

(IN THOUSANDS)

Note 5. Investments (Continued)

Approximately $759,477 and $671,503 of the carrying value of investments as of June 30, 2017 and 2016, respectively, is invested in the University's long-term investment pool (the pool). The pool includes the University's endowment funds.

Some of the investments, including the real estate and real estate funds, limited partnerships, hedge funds and private equity investments, have time restrictions on redemption. These restrictions vary from six months to the stated term of the limited partnership, trust, or fund, which may be longer than one year. During this period, the University may not be able to readily sell or convert certain holdings in the pool to cash. Funds that have restrictions on liquidity in excess of one year are approximately $66,834 and $73,865 as of June 30, 2017 and 2016, respectively, and range from two to seven years in duration.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.

The University incurred investment-related expenses, such as custodial fees and investment advisory fees, of $2,353 and $2,292 in 2017 and 2016, respectively.

The following tables summarize the investment return and its classification in the consolidated statement of activities as of June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 12,729	$ 342	$ 258	$ 13,329
Net realized and unrealized gains (losses)	55,027	27,622	(206)	82,443
Gross return on investments	67,756	27,964	52	95,772
Investment return designated for current operations	(34,254)	–	–	(34,254)
Investment return net of amounts designated for current operations	$ 33,502	$ 27,964	$ 52	$ 61,518

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 10,542	$ 475	$ 385	$ 11,402
Net realized and unrealized gains (losses)	(25,734)	(6,437)	(365)	(32,536)
Gross return on investments	(15,192)	(5,962)	20	(21,134)
Investment return designated for current operations	(32,718)	–	–	(32,718)
Investment return net of amounts designated for current operations	$ (47,910)	$ (5,962)	$ 20	$ (53,852)

(IN THOUSANDS)

Note 6. Split Interest Agreements

A summary of assets held and related obligations related to split interest agreements as of June 30 follows:

	2017	2016
Assets:		
Charitable remainder trusts	$ 14,162	$ 13,349
Charitable gift annuities	4,527	4,365
Total	$ 18,689	$ 17,714
Liabilities:		
Split interest agreement obligations	$ 12,083	$ 12,003

Contributions related to split interest agreements totaled $244 and $625 for the years ended June 30, 2017 and 2016, respectively.

Note 7. Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at June 30:

	2017	2016
Buildings	$ 698,768	$ 652,256
Equipment	152,379	148,636
Land and land improvements	97,049	95,157
Library books	75,420	72,413
Renovations-in-progress	39,938	34,759
	1,063,554	1,003,221
Accumulated depreciation	(389,217)	(369,673)
	$ 674,337	$ 633,548

Depreciation expense was $27,948 and $26,857 in 2017 and 2016 respectively.

Construction Commitments: During 2017, the University committed to renovate and improve the University's athletic arena. The costs of the renovation and improvements to the University's facility are estimated to total $71,000. As of June 30, 2017, the University was contractually committed for construction and architectural services totaling $7,580. The University had incurred $2,804 of contracts costs through 2017 and $136 through 2016.

During 2017, the University committed to constructing a new residential facility. The costs of the renovation and improvements to the University's facility are estimated to total $11,000. As of June 30, 2017, the University was contractually committed for construction and architectural services totaling $9,284. The University had incurred $567 of contracts costs through 2017.

(IN THOUSANDS)

Note 8. Indebtedness

The University finances the construction, renovation, and acquisition of certain facilities through the issuance of debt obligations which may include bonds, bank loans, and other borrowings. The costs related to the issuance of bonds are presented net of the related debt and are amortized to interest expense over the life of the related loans. Total indebtedness for the years ended June 30 are as follows:

	2017	2016
Notes and term loan:		
Term loan	$ 26,710	$ 27,315
111 River Park, LLC – notes payable	35,996	35,996
Senior secured note	23,023	24,165
Other various notes	208	232
Revenue bonds:		
2003, due serially	15,625	19,025
2006, due serially	24,630	46,185
2009, due serially	60,225	64,075
2011A, due serially	16,585	18,285
2013, due serially	54,775	56,170
2015A, due serially	49,775	49,775
2015B, due serially	19,690	20,425
2016A, due serially	28,000	28,000
2016B, due serially	20,870	-
	376,112	389,648
Net unamortized premium	8,460	9,775
Net unamortized issuance cost	(4,379)	(4,733)
	$ 380,193	$ 394,690

Under the terms of a New Market Tax Credit financing arrangement in 2011, the University borrowed \$27,315 under a term loan agreement with a bank. This term loan is unsecured and bears interest at LIBOR plus 1.35% and matures on October 1, 2021, the interest rate has been fixed at 5.16% under the terms of a related swap agreement. The loan requires monthly payments of only interest through October 31, 2016. Beginning on November 1, 2016, the University is required to make quarterly principal payments ranging from \$199 to \$250 through May 1, 2021, \$11,500 on June 1, 2021, \$254 on August 1, 2021 and \$11,306 at maturity.

As part of the New Market Tax Credit financing referred to above, four unrelated community development entities provided debt financing to 111 River Park, LLC, a qualified active low income community business controlled by the University, in order to construct an office and research facility adjacent to its campus. This financing consists of eight separate qualified low income community investment loans totaling \$35,996 which are secured by a mortgage on the real property financed. These loans have interest rates ranging from 3.63% to 4.74%. The loans require payments of interest only through October 31, 2018, and then principal payments of \$700 to \$1,466 per year from November 1, 2018 through September 30, 2041, with a payment of \$12,880 due at final maturity on October 5, 2041.

The senior secured note is an amortizing loan at a fixed interest rate of 3.98% with a final maturity of December 17, 2026. The proceeds were used to finance the purchase and planned renovation of a hotel adjacent to the University's campus; the note is secured by a mortgage on this real estate. Monthly principal payments range from \$62 to \$189 through November 2026, with a balance of \$5,000 due at maturity.

Note 8. Indebtedness (Continued)

The University uses the proceeds from Revenue Bonds to finance the construction and renovation of facilities related to the University's academic purpose. Revenue Bonds are structured as long-term leases with the State of Ohio Higher Education Facility Commission. Under the terms of these indentures, the buildings and facilities (historical cost totaling over $359,000) are pledged as security, in addition to University revenue and the full faith and credit of the University. Upon repayment of the Revenue Bonds and termination of the leases, ownership of the respective facilities is transferred to the University.

The 2003 Revenue Bonds bear interest at a variable rate based upon the Consumer Price Index plus a stated spread; this rate has been fixed at rates ranging from 4.09% to 4.44% through final maturity in 2024 under the terms of a related swap agreement. Principal payments ranging from $1,225 to $3,775 are due annually through final maturity in 2024.

The 2006 Revenue Bonds bear interest at variable rates based upon the Consumer Price Index plus a spread; these rates have been fixed at rates ranging from 4.09% to 4.44% through December 1, 2023 under the terms of a related swap agreement. Principal payments ranging from $685 to $5,345 are due annually through final maturity in 2031.

The 2009 Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.5%. Principal payments ranging from $1,095 to $5,705 are due annually through final maturity in 2037.

The 2011A Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.625%. Principal payments ranging from $685 to $1,775 are due annually through final maturity in 2042.

The 2011B Revenue Bonds bear interest at variable rates based upon the SIFMA Index plus 1.25%; the interest rate has been fixed at 5.249% under the terms of a swap agreement. These bonds mature on July 1, 2016 and are subject to mandatory redemption on June 1, 2016 in the principal amount of $14,000. These bonds were paid off during the year ended June 30, 2016.

The 2013 Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from $1,320 to $3,240 are due annually through final maturity in 2044.

The 2015A Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from $650 to $5,440 are due annually beginning in 2025 through final maturity in 2046.

The 2015B Revenue Bonds bear interest at fixed rates ranging from .9% to 4.335%. Principal payments ranging from $595 to $1,765 are due annually beginning in 2017 through final maturity in 2036.

The 2016A Revenue Bonds bear interest at variable rates based upon the 1-month LIBOR plus a stated spread; the interest rate has been fixed at 4.30% under the terms of a related swap agreement. Principal payments are ranging from $800 to $2,875 are due annually beginning in 2021 through 2026, with a final principal payment of $21,300 due in 2026.

The 2016B Revenue Bonds bear interest at a fixed rate of 1.99%. Principal payments of $2,735 and $2,875 are due annually in 2025 and 2026, with a final principal payment of $15,260 due in 2027.

The outstanding bonds do not require mandatory reserves for future payments of principal and interest.

(IN THOUSANDS)

Note 8. Indebtedness (Continued)

Debt obligations are generally callable by the University and mature at various dates through 2046. Maturities on debt obligations for the next five years and thereafter are:

2018	$ 15,045
2019	13,207
2020	13,201
2021	25,895
2022	25,581
2023 and thereafter	283,183
Total	$ 376,112

Interest expense was $18,249 for 2017 and $18,109 for 2016. Interest capitalized was $282 for 2017 and $143 for 2016. Cash paid for interest was $18,224 for 2017 and $17,214 for 2016.

As discussed more fully in Note 9, the University has entered into interest rate swap agreements that fix the interest rates on its variable rate debt.

The University maintains unsecured revolving credit agreements with two banks totaling $45,000. The agreements, are $25,000 and $20,000, and are due to expire on February 28, 2019 and December 31, 2017, respectively. As of June 30, 2017 and 2016, the University had no outstanding balances on these lines of credit.

The University is a partner in a real estate partnership and has guaranteed a portion of third-party loans to the partnership in the amount of $7,432. The University guarantee coincides with the term of the loan, which matures on July 3, 2018. The University has a two-year agreement to lease property from this partnership with a minimum payment of approximately $500 per year.

As of June 30, 2017, the University had met all of the covenants required under its bond indentures and bank loans.

Note 9. Interest Rate Swap Obligations

The University uses interest rate swap agreements to manage interest rate risk associated with its variable rate debt. Under these agreements, the University and its counterparty agree to exchange the difference between the fixed and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. The difference between the fixed and variable interest amounts under the swap agreements is recorded as interest expense. The change in fair value of the interest rate swap agreements is recorded as a change in net unrealized gain (loss) on interest rate swap agreements.

In July 2011, the University entered into an interest rate swap agreement with a notional amount of $27,449. This agreement effectively fixed the interest rate on the $27,315 term note. The University receives the one-month LIBOR rate plus a spread of 1.35% and is required to pay a fixed rate of 5.16% through September 30, 2031. The outstanding notional amount of the swap was $26,844 and $27,449 at June 30, 2017 and 2016 respectively. The fair value of this agreement as of June 30, 2017 and 2016 is recorded as a liability of $3,982 and $6,646, respectively in the accompanying consolidated statements of financial position.

Note 9. Interest Rate Swap Obligations (Continued)

In August 2006, the University entered into an interest rate swap agreement with a notional amount of $25,995, with an adjustment to the notional amount at various amounts based on maturity terms within the agreement. The notional amount at June 30, 2017 and 2016 is $24,630 and $23,315, respectively. This agreement effectively fixed the interest rate on the portion of the $72,105 State of Ohio Higher Education Facility Commission, 2006 Revenue Bonds whose interest rate was tied to the Consumer Price Index (CPI) at rates ranging from 4.09% to 4.44% for the bonds maturing between the dates of December 1, 2015 through December 1, 2023. The fair value of this agreement as of June 30, 2017 and 2016 is recorded as a liability of $1,276 and $2,047, respectively in the accompanying consolidated statements of financial position.

In August 2006, the University entered into an interest rate swap agreement with a notional amount of $22,350, with an adjustment to the notional amount at various amounts based on maturity terms within the agreement. The notional amount at June 30, 2017 and 2016 is $15,625 and $19,025, respectively. This agreement effectively fixed the interest rate, for the term of the bonds, on the portion of the $54,100 State of Ohio Higher Education Facility Commission Converted 2003 Revenue Bonds whose interest rate was tied to the CPI at rates ranging from 4.09% to 4.44% for the bonds maturing between the dates of December 1, 2015 and December 1, 2023. The fair value of this agreement as of June 30, 2017 and 2016 is recorded as a liability of $494 and $890, respectively in the accompanying consolidated statements of financial position.

In April 2007, the University entered into an interest rate swap agreement with a notional amount of $28,000. This agreement effectively fixed the interest rate on the $28,000 State of Ohio Higher Education Facility Commission 2002 Variable Rate Revenue Bonds at 3.999% through December 1, 2032. In 2009, the 2002 bonds were retired and replaced with the 2011B Revenue Bonds, which were subsequently retired and replaced with the 2016A Revenue Bonds. In March 2016, the University amended this interest rate swap agreement. Under the revised agreement, the University receives 67% of the one-month LIBOR rate, plus a spread of 0.25%. The fair value of this agreement as of June 30, 2017 and 2016 is recorded as a liability of $6,337 and $8,574, respectively in the accompanying consolidated statements of financial position.

Note 10. Retirement Plans

The University sponsors a defined contribution retirement plan that includes substantially all of its full-time employees. The University purchases individual retirement annuities through Teachers Insurance and Annuity Association (TIAA) to fund retirement benefits. The University contributes between 2.5% and 9% of an eligible employee's salary into such annuities, depending upon the employee's contribution levels and years of service. University contributions into participant accounts vest ratably over the participant's first four years of service. The University has no unfunded pension obligation because its required plan contributions are funded on a current basis. The cost to fund these benefits was $11,390 in 2017 and $10,843 in 2016.

Through salary reduction agreements, employees may contribute additional amounts on a tax-deferred basis with either of two investment providers, in accordance with limitations under the Internal Revenue Code of 1986, as amended.

(IN THOUSANDS)

Note 10. Retirement Plans (Continued)

The University provides health care benefits to retired faculty and staff hired before January 1, 2014; this benefit is not eligible to employees hired after that date. Faculty and staff are eligible for this benefit if they have either worked 20 years and attained age 55, or worked 10 years and attained age 60, while in service with the University. The plan is contributory and contains other cost-sharing features such as deductibles and co-insurance; contributions by plan participants were $1,198 in 2017 and $1,309 in 2016. The University makes amounts available to retirees to purchase health care insurance under this plan and the accrued liabilities associated with this plan have been recorded on the University's financial statements in accordance with generally accepted accounting principles.

Postretirement benefit expense related to the Plan includes the following components as of June 30:

	2017	2016
Service cost of benefits earned	$ 1,895	$ 1,739
Interest cost on liability	2,831	3,317
Amortization of net loss	670	353
Net periodic postretirement benefit cost	$ 5,396	$ 5,409

A summary of the components of the changes in the projected benefit obligations and funded status of the Plan as of June 30 is as follows:

	2017	2016
Change in projected benefit obligations:		
Projected benefit obligation, beginning of year	$ 86,526	$ 80,919
Service cost	1,895	1,739
Interest cost	2,831	3,317
Actuarial (gain) loss	(9,074)	3,909
Benefits paid	(3,567)	(3,358)
Projected benefit obligation, end of year	78,611	86,526
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	-	-
Employer contributions	3,567	3,358
Benefits paid	(3,567)	(3,358)
Fair value of plan assets, end of year	-	-
Net liability on the statements of financial position	$ 78,611	$ 86,526

A summary of the components recognized in unrestricted net assets for the years ended June 30 is as follows:

	2017	2016
Actuarial (loss) gain	$ 9,074	$ (3,909)
Prior service cost		
Amortization of net loss	670	353
	$ 9,744	$ (3,556)

(IN THOUSANDS)

Note 10. Retirement Plans (Continued)

There are unrecognized actuarial losses of $5,678 and $15,422 included in unrestricted net assets at June 30, 2017 and 2016, respectively, which have not yet been recognized in the net periodic benefit cost.

The following weighted-average assumptions were used to determine the postretirement benefit obligation and the postretirement benefit cost as of June 30:

	2017	2016
Weighted-average discount rate used to determine the projected benefit obligation	3.65%	3.35%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	3.35%	4.20%

The University used the RP2014 mortality table in determining its obligation.

The health care cost trend rate assumption significantly affects the projected benefit obligation and the change in the postretirement benefit obligation reported in the consolidated financial statements. The model is based on long-term projections of Gross Domestic Product per capita and National Health Expenditures per capita. These inputs are based on assumptions from the University's actuaries. The model does not specifically include an administrative cost trend. Rather, administrative costs are incorporated with the medical assumptions.

The following health care cost trend rates were assumed in the determination of the postretirement benefit obligation and net periodic benefit cost as of June 30:

	2017	2016
Initial year trend:		
Combined trend pre-Medicare	6.60%	6.00%
Combined trend post-Medicare	7.40%	8.00%
Combined ultimate trend for pre-1994 and grandfathered retirees:		
Pre-Medicare	4.50%	4.50%
Post-Medicare	4.10%	4.10%
Combined ultimate trend for non-grandfathered participants and post-1994 retirees:		
Pre-Medicare	5.00%	5.00%
Post-Medicare	No Trend	No Trend
Year that rates reach the ultimate trend rate	2038	2038

A one-percentage point change in the assumed health care cost trend rate would have the following effect on the postretirement benefit obligation as of June 30, 2017, and the net periodic benefit cost:

	1.00% Increase	1.00% Decrease
Effect on postretirement benefit obligation	$ 7,095	$ (6,173)
Effect on net periodic benefit cost	503	(431)

(IN THOUSANDS)

Note 10. Retirement Plans (Continued)

The following benefit payments, which reflect expected future service and the effect of the Medicare subsidy, as appropriate, are expected to be paid over the next ten years:

Year ending:	
2018	$ 4,061
2019	4,472
2020	4,727
2021	4,994
2022	5,242
2023–2027	28,920

Note 11. Fair Value of Financial Instruments

The University records investments in cash and cash equivalents, equity securities and equity and bond mutual funds at their current fair values based on quoted market prices in active markets for identical assets, which is consistent with Level 1 in the fair value hierarchy.

The University records its investments in U.S. government treasuries, exchange traded commodities and real estate at their current fair values based on quoted market prices in markets that are not active for all significant inputs, which is consistent with Level 2 in the fair value hierarchy; this includes the non-cash collateral held for security lending agreements. Following is the summary of the inputs and valuation techniques used as of June 30, 2017 and 2016 for valuing Level 2 investments:

Investments	Input	Valuation Technique
Cash equivalents	Broker/Dealer	Market
US Treasuries	Broker/Dealer	Market
Exchange traded commodities and real assets	Broker/Dealer	Market

The University also holds investments in private equity funds, real estate and real estate funds, hedge funds, commodity funds, and other investments that are not publicly traded but are valued at a net asset value per unit, or its equivalent. The University records its holding in these assets at the reported net asset value, and as such, these investments have been excluded from the fair value hierarchy. Due to the inherent uncertainty of valuation, the estimated fair values may differ from values that would have been used had a readily available market value for the investments existed, and such differences could be material.

The University also holds certain real estate investments that it accounts for using the equity method. As such, these investments are also excluded from the fair value hierarchy.

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

The following table summarizes the recorded amount of assets and liabilities by class of asset/liability recorded at fair value on a recurring basis:

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash and cash equivalents	$ 681	$ 27,187	$ -	$ 27,868
US Treasuries	48	865	-	913
Fixed maturity:				
Mutual funds	38,394			38,394
Individual securities		102,732		102,732
Equities:				
Mutual funds:				
Domestic	35,892	-	-	35,892
International	204,773	-	-	204,773
Individual securities:				
Domestic	159,080	-	-	159,080
Exchange traded commodities and real assets	-	10,426	-	10,426
Assets held by others [a]	-	-	1,013	1,013
Guaranteed investment contract	-	-	1,440	1,440
	438,868	141,210	2,453	582,531
Investments reported at fair value based on net asset value and equity method:				
Private equity funds [b]				55,406
Real estate and real estate funds [b]				4,234
Real assets [b]				3,696
Hedge funds [b]				146,082
Real estate - equity method				10,041
Total investment assets	438,868	141,210	2,453	801,990
Collateral held for securities lending agreement:				
Cash and cash equivalents	-	-	-	3,875
Total assets at fair value	$ 438,868	$ 141,210	$ 2,453	$ 805,865
Liabilities				
Interest rate swap obligation	$ -	$ 12,089	$ -	$ 12,089

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash and cash equivalents	$ 970	$ 19,488	$ -	$ 20,458
US Treasuries	49	6,659	-	6,708
Fixed maturity:				
Mutual funds				
Domestic	25,353	-	-	25,353
International	13,213	-	-	13,213
Individual securities				
Domestic		98,964		98,964
Equities:				
Mutual funds:				
Domestic	32,905	-	-	32,905
International	157,514	-	-	157,514
Individual securities:				
Domestic	119,694	-	-	119,694
Exchange traded commodities and real assets	19,706	11,017	-	30,723
Real estate and real estate funds	2,372	-	-	2,372
Assets held by others [a]	-	-	1,024	1,024
Guaranteed investment contract	-	-	934	934
	371,776	136,128	1,958	509,862
Investments reported at fair value based on net asset value and equity method:				
Private equity funds [b]				60,221
Real estate and real estate funds [b]				9,665
Real assets [b]				3,915
Hedge funds [b]				124,551
Real estate - equity method				2,713
Total investment assets	371,776	136,128	1,958	710,927
Collateral held for securities leading agreement				
Cash and cash equivalents	-	-	-	1,465
Total assets at fair value	$ 371,776	$ 136,128	$ 1,958	$ 712,392
Liabilities				
Interest rate swap obligation	$ -	$ 18,157	$ -	$18,157

[a] The fair value of beneficial interests in trusts held by others (perpetual trusts) are based on quoted prices of the underlying assets 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.

[b] In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

The table below represents quantitative information about significant unobservable inputs related to investments reported at fair value using the practical expedient.

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)*	Redemption Notice Period
Private equity funds [a]	$ 55,406	$ 22,856		
Real estate and real estate funds [b]	4,234	5,928		
Real assets [c]	3,696	446		
Hedge funds - Equity long/short [d]	34,712	-	monthly, quarterly	30-60 days
Hedge funds - Event driven [e]	26,657	-	quarterly	45-90 days
Hedge funds - Global opportunities [f]	13,600	-	monthly, quarterly	3-45 days
Hedge funds - Relative value [g]	53,165	-	quarterly, annually	60-90 days
Hedge funds - Multi-strategy [h]	17,948	-	quarterly, annually	65-90 days
Total	$ 209,418	$ 29,230		

**Redemptions may be subject to an initial and/or rolling one to three year lock up or investor/fund level gate.*

[a] This class includes several private equity funds engaging venture capital, buyout and turnaround investments in U.S. and European companies. The University records its position in these funds at the reported net asset value of its ownership interest in partners' capital as reported by the general partner or fund manager, which represents fair value. These funds may hold publicly traded securities as well as other securities that do not have a readily determinable market value. Investments in publicly traded securities are generally valued at quoted market prices in active markets. Investments without readily determinable quoted market prices in active markets are valued by the fund managers or valuation committees; such valuation estimates consider cost data, restrictions affecting marketability, operating results, the financial condition of the underlying portfolio company and prices determined by using recent observable transaction information for similar investments or transactions. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 7 to 10 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2017.

[b] Real estate funds class includes several funds that invest primarily in U.S. commercial real estate properties. The University records its position in these funds at the reported net asset value of its ownership interest in partners' capital as reported by the general partner, which represents fair value. The holdings in these funds are valued by the fund managers or valuation committees; such valuation estimates consider cost data, restrictions affecting marketability, operating results, the financial condition of the underlying property and prices determined by using recent observable transaction information for similar purchase, sale or financing transactions. These investments cannot be redeemed with the fund. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 2 to 7 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2017.

Note 11. Fair Value of Financial Instruments (Continued)

(c) Real assets are held in a private real estate investment trust that invests in commercial timberland properties. The University records its position in this trust at the reported net asset value of its ownership interest in the trust as reported by the fund manager, which represents fair value. The trust's holdings are valued by fund manager or valuation committees by using recent observable transaction information for similar holdings or transactions. These investments cannot be redeemed with the fund. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 7 to 10 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2017.

(d) Equity long-short strategies seek to profit by taking positions in equities and generally involve fundamental analysis in the investment decision process. Managers in these strategies tend to be "stock pickers" and typically manage market exposure by shifting allocations between long and short investments depending on market conditions and outlook. Long-short strategies may comprise investments in one or multiple countries, including emerging markets and one or multiple sectors.

(e) Event driven strategies involve investing in opportunities created by significant transaction events, such as spin-offs, mergers and acquisitions, and reorganizations. These strategies include risk arbitrage, distressed situations investing, special situations, opportunistic investing, and activism.

(f) Global opportunities strategies seek to exploit opportunities in various global markets. Portfolio managers employing these strategies have a broad mandate to invest in those markets and instruments which they believe provide the best opportunity. A portfolio manager employing a global macro strategy may take positions in currencies, sovereign bonds, global equities, and equity indices or commodities.

(g) Relative value strategies seek to profit by exploiting pricing inefficiencies between related instruments while remaining long-term neutral to directional price movements in any one market. These strategies include, but are not limited to: Convertible Bond Arbitrage, Fixed Income Arbitrage, Options Arbitrage, Pairs Trading, and multiple "Market Neutral" strategies.

(h) Multi-strategy funds dynamically allocate their assets among a variety of investment strategies to capture systematic inefficiencies and idiosyncratic opportunities across asset classes and market cycles. The various investment strategies employed include those detailed above. These investments include a commitment based investment in a renewable energy fund focused on the development, operation, and management of various solar projects.

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value for the years ended June 30:

	Assets Held by Others	Guaranteed Investment Contract	Total
Balance at July 1, 2016	$ 1,024	$ 934	$ 1,958
Total gains or losses for the period included in earnings (or changes in net assets)	-	-	-
Purchases, issues, sales and settlements:			
Purchase	-	506	506
Sales	(11)	-	(11)
Balance at June 30, 2017	$ 1,013	$1,440	$ 2,453

	Assets Held by Others	Guaranteed Investment Contract	Total
Balance at July 1, 2015	$ 1,023	$ 725	$ 1,748
Total gains or losses for the period included in earnings (or changes in net assets)	1	-	1
Purchases, issues, sales and settlements:			
Purchase	-	209	209
Sales		-	-
Balance at June 30, 2016	$ 1,024	$ 934	$ 1,958

There were no significant transfers in and out of Level 1, 2, or 3 during the period ending June 30, 2017 or 2016.

The carrying amount of cash, accounts receivable, and deferred income and student deposits approximates fair value because of the short duration of these financial instruments.

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

A reasonable estimate of the fair value of the notes receivable and advances from government for federal loans could not be made because the notes receivable are not saleable and can only be assigned to the United States government or its designees. It is not practical to estimate the fair value of grants and contracts receivable since they contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

The carrying amount of pledges receivable approximates fair value as these donations are recorded at the net present value of the amount pledged.

The fair value of the fixed rate indebtedness is approximately $319,508 as of June 30, 2017, and was estimated using discounted cash flows. The carrying amount of the University's variable rate debt approximates fair value and is $116,773.

Note 12. Nature and Amount of Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes as of June 30:

	2017	2016
Instruction	$ 29,280	$ 16,750
Administrative and general	6,974	9,835
Organized Research	97	(51)
Libraries	3,861	3,213
Student aid	41,429	32,262
Auxiliary enterprises	17,345	1,563
Related entity	-	7,000
	$ 98,986	$ 70,572

Permanently restricted net assets are restricted for the following purposes as of June 30:

	2017	2016
Instruction	$ 57,351	$ 58,439
Administrative and general	12,522	11,952
Organized Research	2,457	2,549
Libraries	4,560	4,541
Student aid	85,894	80,408
Auxiliary enterprises	923	2,567
	$ 163,707	$ 160,456

Note 13. Endowment Funds

The University's endowment consists of permanently and temporarily restricted individual donor endowment funds and unrestricted board-designated or quasi endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to require the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted in accordance with UPMIFA and donor stipulations. Also in accordance with the University's interpretation of UPMIFA and absent specific donor restrictions on an endowed fund, the Board may appropriate the realized and unrealized net appreciation in the fair value of the assets of that fund for uses and purposes of the fund.

From time to time, the fair value of assets associated with the 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. In accordance with accounting standards, deficiencies of this nature are reported in unrestricted net assets. There was a deficiency of $1,772 and $5,495 recorded as of June 30, 2017 and 2016, respectively.

The long-term objective of the University's investment portfolio is to generate a return which is sufficient to provide funding for programs supported by its endowment. To accomplish this objective, the University seeks to earn the greatest total return possible consistent with its general risk tolerance and a diversified asset allocation strategy. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that includes equity-based investments to achieve its long-term objectives within prudent risk constraints.

The University uses a hybrid method to calculate the amount it appropriates from its endowment each year (the appropriation). A portion of the appropriation is based on the prior year's appropriation plus an inflationary factor. The remaining portion of the appropriation is calculated by computing a return on the average of the previous twenty quarters ending market value computed at December 31 each year for the fiscal year beginning the following July 1. The amount appropriated is bound by a floor of 3.5% and a ceiling of 5.5% of the previous December 31 fair values for the endowment funds.

(IN THOUSANDS)

Note 13. Endowment Funds (Continued)

The University has the following endowment-related activities:

	Changes in Endowment Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2016	$ 274,052	$ 44,988	$ 154,083	$ 473,123
Investment return:				
Investment income	9,146	-	258	9,404
Net appreciation (depreciation) (realized and unrealized)	26,182	25,684	(142)	51,724
Contributions	208	-	3,041	3,249
Other (additions and deletions to endowment)	6,125	-	(6)	6,119
Appropriation of endowment assets for expenditure	(10,661)	(8,772)	-	(19,433)
Endowment net assets at June 30, 2017	$ 305,052	$ 61,900	$ 157,234	$ 524,186

	Changes in Endowment Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2015	$ 291,124	$ 60,197	$ 149,086	$ 500,407
Investment return:				
Investment income	8,791	-	385	9,176
Net appreciation (depreciation) (realized and unrealized)	(17,075)	(5,986)	(364)	(23,425)
Contributions	262	-	3,519	3,781
Other (additions and deletions to endowment)	(1,807)	-	1,457	(350)
Appropriation of endowment assets for expenditure	(7,243)	(9,223)	-	(16,466)
Endowment net assets at June 30, 2016	$ 274,052	$ 44,988	$ 154,083	$ 473,123

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 13. Endowment Funds (Continued)

The composition of net assets, by type, of endowment funds at June 30 is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,772)	$ 61,900	$ 157,234	$ 217,362
Board-designated endowment funds	306,824	-	-	306,824
	$ 305,052	$ 61,900	$ 157,234	$ 524,186

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (5,495)	$ 44,988	$ 154,083	$ 193,576
Board-designated endowment funds	279,547	-	-	279,547
	$ 274,052	$ 44,988	$ 154,083	$ 473,123

Note 14. Private Gifts, Grants, and Other

Private gifts, grants, and other include the following:

	Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gifts	$ 11,653	$ 23,800	$ 2,387	$ 37,840
Sponsored projects	15,458	-	-	15,458
Related entities	18,351	-	-	18,351
Miscellaneous income	8,761			8,761
Transfers between restrictions	(536)	(112)	648	-
	$ 53,687	$ 23,688	$ 3,035	$ 80,410

	Year Ended June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gifts	$ 10,998	$ 3,671	$ 3,564	$ 18,233
Sponsored projects	8,608	-	-	8,608
Related entities	19,886	-	-	19,886
Miscellaneous income	6,340	-	-	6,340
Transfers between restrictions	(1,412)	-	1,412	-
	$ 44,420	$ 3,671	$ 4,976	$ 53,067

(IN THOUSANDS)

Note 15. Functional Classification of Expenses

The University's functional classifications of the unrestricted operating expenses are as follows as of June 30:

	2017	2016
Instruction	$ 144,400	$ 143,198
Administrative and general	57,844	52,814
Libraries	12,436	11,655
Sponsored academic projects	11,376	12,359
Organized research	132,715	112,224
Auxiliary enterprises	105,898	99,680
Fundraising	8,307	8,199
Related entities	19,532	19,806
	$ 492,508	$ 459,935

Note 16. Consolidated Entities

Office and research facility: The University and certain affiliated entities entered into a new market tax credit financing transaction to finance the construction of an office and research facility adjacent to its campus. In conjunction with this transaction, an affiliate of the University entered into an agreement to lease this facility to a multinational corporation for fifteen years, plus renewal options.

The University recorded the following assets and liabilities at June 30:

	2017	2016
Assets:		
Cash	$ 880	$ 1,723
Accounts receivable	5,323	3,761
Note receivable from investment fund	26,710	27,315
Land, buildings and equipment	43,267	44,923
Liabilities:		
Term loan payable to bank	$ 26,710	$ 27,315
Loans payable to the Community Development Entities	35,996	35,996
Deferred rental income	261	251

The term loan payable to the bank and the loans payable to the Community Development Entities have been recorded as long-term debt on the accompanying consolidated financial statements.

Construction was completed in July 2014 at a cost of approximately $53,000. The tenant moved into the facility and rent commenced on August 1, 2014.

The rent payments from the lessee are intended to fund the expected financing and debt service costs during the term of the lease, which may or may not coincide with the term of the financing.

(IN THOUSANDS)

Note 16. Consolidated Entities (Continued)

Hotel operations: In December 2014, the University entered into a joint venture to purchase a local hotel adjacent to its campus. The University is a 90% partner in this venture.

The University recorded the following assets, liabilities, and equity on its books at June 30:

	2017	2016
Assets:		
Land, buildings and equipment	$ 39,775	$ 25,263
Liabilities and equity:		
Senior secured note	$ 23,022	$ 24,165
University net assets	1,107	1,023
Noncontrolling interest	122	113

University of Dayton China Institute: In August 2013, the University opened a wholly owned foreign enterprise in China. The University of Dayton China Institute (UDCI) was established to provide research facilities for University faculty and students and educational and training opportunities for companies in the Suzhou Industrial Park, where the facility is located. The University recognized income of $304 and expenditures of $741 during the year ended June 30, 2017 and income of $95 and expenditures of $526 during the year ended June 30, 2016 from this enterprise. The University has recorded fixed assets of $7,916 for the building it purchased in 2017.

Note 17. Subsequent Events

The University has evaluated and disclosed any subsequent events through October 17, 2017, which is the date the financial statements were issued and made available.

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