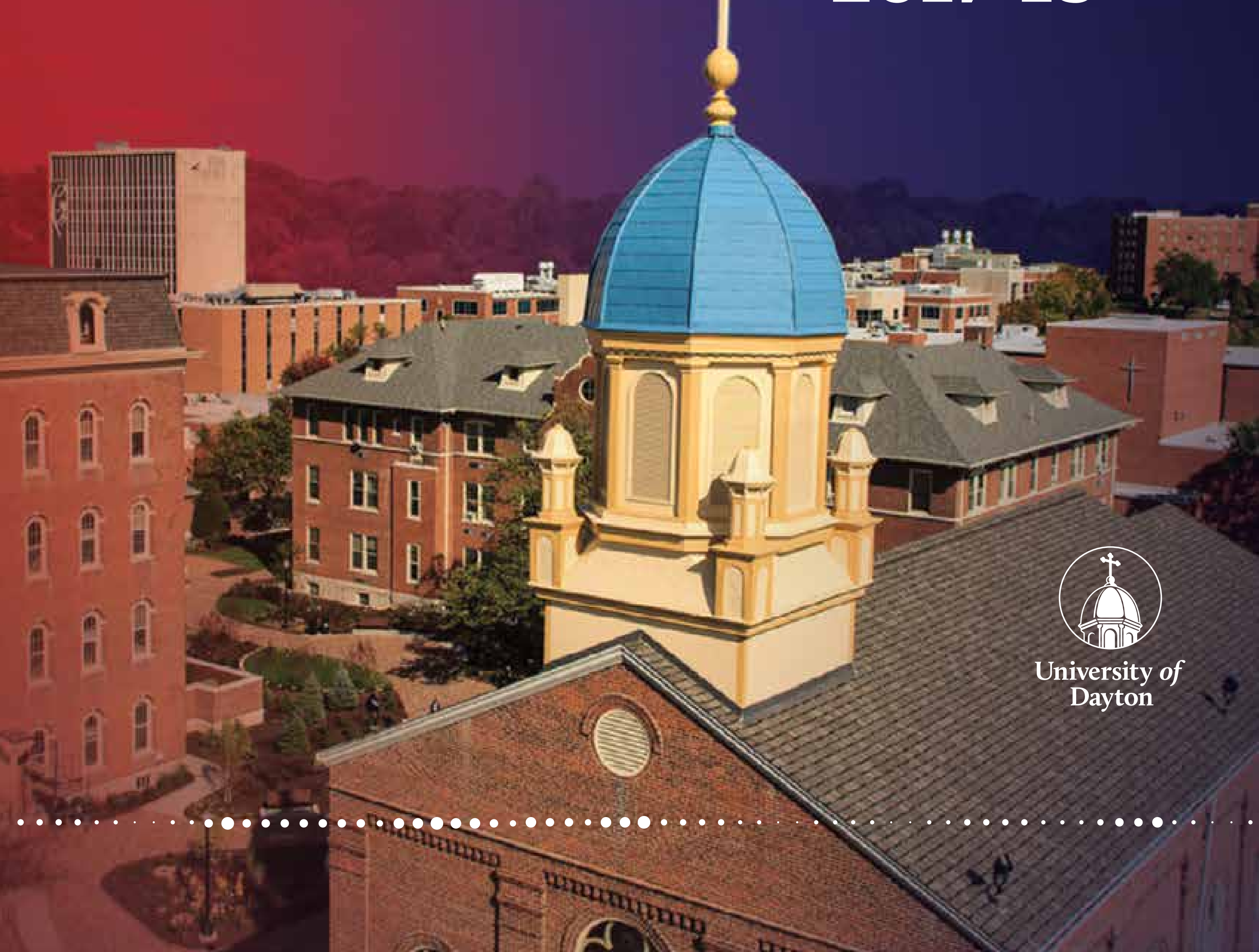
UNIVERSITY OF DAYTON

Consolidated Financial Report

2017-18



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University of Dayton

AT A GLANCE

#1 EVERYONE PLAYS INTRAMURAL SPORTS

#1 CATHOLIC UNIVERSITY FOR SPONSORED ENGINEERING R&D

#10 BEST-RUN COLLEGE

#12 HAPPIEST STUDENTS

95% SUCCESS RATE

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

#1 NATIONALLY FOR FEDERALLY SPONSORED MATERIALS ENGINEERING R&D

TOP 20 ENTREPRENEURSHIP PROGRAM

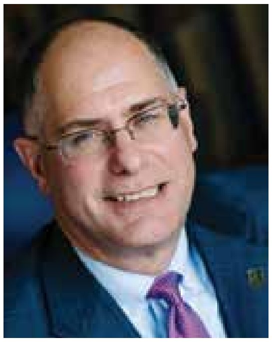
17 DIVISION I TEAMS

I ♥ UD

#14 ENGAGEMENT IN COMMUNITY SERVICE

#8 STUDENTS LOVE THEIR COLLEGE

A MESSAGE FROM THE PRESIDENT



In fiscal year 2017-18, through bold investments in our people and our mission, the University of Dayton continued to strengthen our teaching, research, creative work, and community engagement. In pursuit of our strategic vision to become a university committed to the common good, the University enhanced its excellence and extended its impact in Dayton, across the country, and around the world.

Each effort helped build our reputation as a top-tier Catholic research university dedicated to innovation, imagination and creativity, and allowed us to expand our reach.

Led by the powerhouse work of the University of Dayton Research Institute, our research portfolio continues to set new records with a total value of $1 billion for all sponsored research contracts. For FY18, annual sponsored research jumped to $150 million. We earned the top spot nationally for all federally sponsored materials research and development. We again ranked first among all Catholic universities for sponsored engineering R&D.

Teaching and learning is at the heart of UD's mission. We made strides on a key priority to make a University of Dayton education more accessible and affordable to all by establishing 22 new scholarship funds, most of which are fully endowed, and expanding our UD Sinclair Academy and Flyer Promise Scholars initiatives. These initiatives are aimed at removing financial barriers for high-achieving students to increase their access to a UD education.

We continue to expand our faculty to serve a growing undergraduate student body, hiring a record 61 new full-time faculty. We also set new records for first-year enrollment, including enrolling one of the most racially and socioeconomically diverse entering classes in our history. We initiated efforts to increase and diversify enrollment of international students through our partnership with Shorelight Education by creating UDayton Global.

These investments have delivered meaningful returns. Not only are more students enrolling, they're graduating. We're proud that during the last three years, 80.4 percent of our first-year students have earned a UD degree within five years. Our retention rate for first-year students returning for their sophomore year has surpassed 90 percent. Those numbers put us above most of our peers and in the company of selective national universities.

Our partnership with 2U, arguably the premier education technology corporation in the world, has enabled us to launch UD graduate degree programs in the School of Business Administration, the School of Law and the School of Education and Health Sciences. The law school is creating one of the nation's first accredited hybrid Juris Doctor programs, blending online and on-campus instruction and will enroll its first students in fall 2019.

Relationships with community and corporate partners continue to offer real-life experiential learning that allows students to expand their skills and knowledge. Our partnership continues with Premier Health to redevelop the former Montgomery County fairgrounds into onMain, an innovative new near-downtown district, and we will anchor the redevelopment of the historic Dayton Arcade by establishing an entrepreneurial learning and working hub.

With all of the great work happening at the University of Dayton, we are taking steps to tell the UD story to a larger audience. We launched an updated brand and identity to anchor a new national reputation campaign and increased visibility for the University by joining the American Talent Initiative and hosting a statewide gubernatorial debate.

Looking to the future, we have made great strides in planning our first comprehensive fundraising campaign in nearly 20 years. We made strategic investments in the advancement division to strengthen long-term engagement of alumni and friends that is already paying off with two consecutive years of record fundraising.

On behalf of the entire administration, faculty, and staff, I am proud to share the tangible results of our work to advance the University of Dayton in the spirit of our Catholic, Marianist mission. I look forward to another year of thoughtful financial stewardship and strategic investments as we continue to build a sustainable foundation with growth in excellence and impact.

Eric F. Spina
President

2017-18

UNIVERSITY HIGHLIGHTS

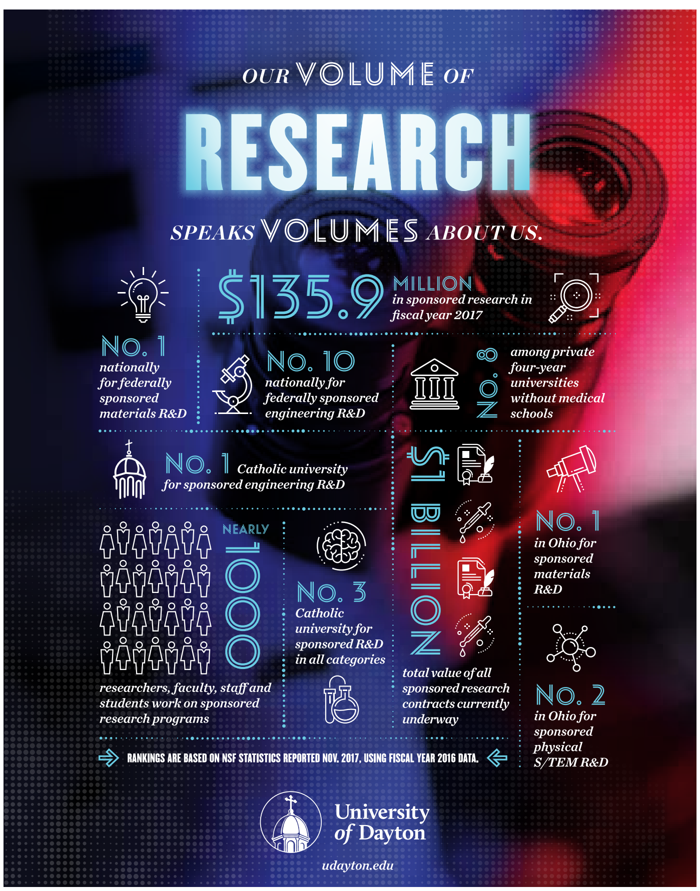
LIGHTING THE WAY

At the University of Dayton, our light is the unique spirit that compels us to act. Formed by knowledge, rooted in faith and devoted to service for the common good, our light is the lens through which we explore our past and the beacon that guides us toward our future.

A NEW LOOK

An update to the University's logo and brand identity provided a fresh, creative approach to UD's marketing and communications, prompting a new look for print, stationery, digital and everything in between.

University *of* Dayton



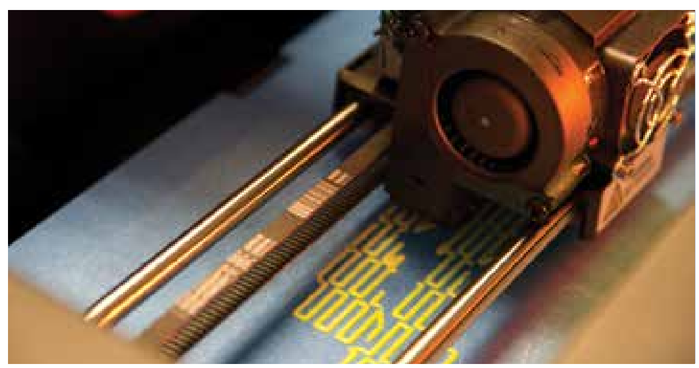
INCLUSIVE EXCELLENCE

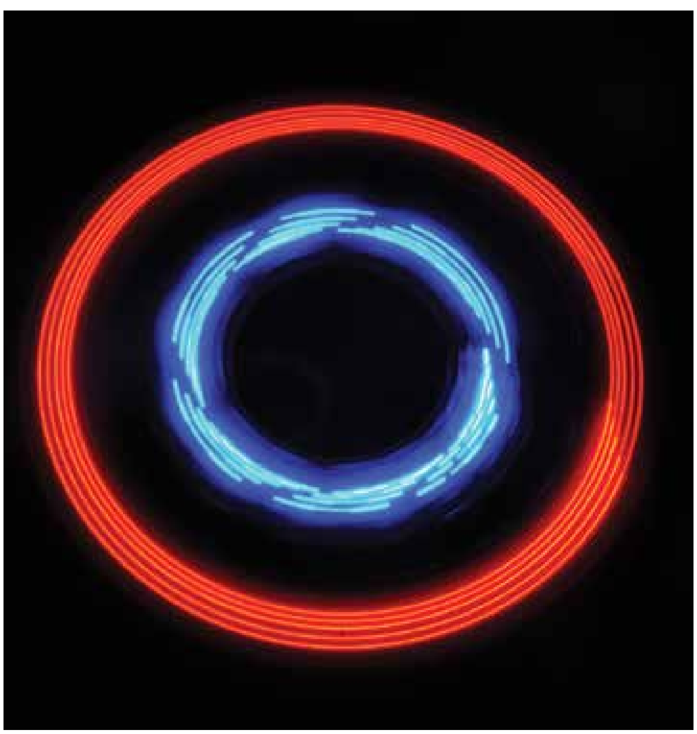
We welcomed the largest and most diverse class in school history in 2017-18, enrolling more than 2,250 first-year students from 41 states and 16 countries. Experiential learning continued to be a hallmark of a UD education.

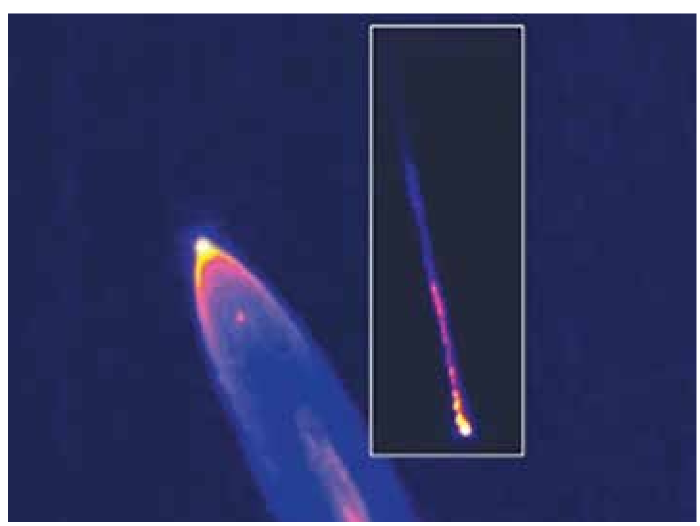
University of Dayton
Research Institute

RESEARCH POWERHOUSE

The rapid growth of the University of Dayton Research Institute helped propel UD to a record $150 million in annual sponsored research and impressive research rankings. For the most recent NSF rankings, UD ranks No. 1 for federally sponsored materials engineering research and eighth in total research expenditures among private four-year U.S. universities that do not perform medical research.







UNDER CONSTRUCTION

We completed the first phase of a $72-million renovation of the iconic UD Arena and moved forward with a $10.7-million modernization of Roesch Library, boldly reimagining how libraries are used beyond studying. To help meet demand for University-owned housing, a new four-story apartment building was completed in the student neighborhood.

2017-18

FINANCIAL HIGHLIGHTS

COMPARATIVE SUMMARY INFORMATION
(ALL DOLLARS IN THOUSANDS)

	2013-14	2014-15	2015-16	2016-17	2017-18
Endowment - Market	510,107	500,407	473,123	524,186	567,311
Physical Plant - Carrying Value (Excluding Depreciation)	918,237	958,148	1,003,221	1,063,554	1,116,782
Physical Plant - Insurable Value	1,105,769	1,146,229	1,167,164	1,137,027	1,182,214
Long Term Debt	367,783	407,078	394,690	380,193	441,907
Enrollment - Full Time - Undergraduate	7,475	7,918	8,226	7,896	8,095
Enrollment - Law School	338	294	267	279	269
Enrollment - Graduate School	2,522	2,520	2,318	2,196	2,115
Total Enrollment - Full and Part Time	10,857	11,368	11,271	10,118	10,225
Degrees Awarded - Undergraduate	1,953	1,924	2,055	2,036	2,091
Degrees Awarded - Graduate	1,052	951	961	939	867

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Year Ended June 30, 2018

Introduction

As we continue to realize and implement President Eric Spina's Strategic Vision, the University of Dayton is making major institutional investments to ensure continued growth and strategic differentiation. These investments include additions of new faculty lines to enable instructional and scholarship excellence as well as seed working capital to support our partnership with our hybrid online education partnership. The University continues to experience double digit growth in sponsored research and increased headcount to support several burgeoning programs. As we prepare to expand our fundraising capacity and our ability to market ourselves on a national scale, we added significant resources to our Advancement and Marketing & Communications functions, respectively.

It is notable that while making such significant investments, the University was able to continue its long track record of strong operating performance, with a core unrestricted operating margin of 5.5% and total operating margin of 8.2%. We expect to see further strengthening in the five-year time horizon as returns from these investments begin to accelerate and major revenue categories continue to diversify.

We continue to strengthen the balance sheet and increase its value to nearly $1.8 billion through asset growth in long term investments driven by market returns in excess of our long term target of 7%. We also made multiple additions to our physical plant, including the UD Arena renovation, Adele Center and the beginning of major renovations to Roesch Library. Liabilities also grew by more than $20 million, however, our new long term debt issuance of $75 million was offset by other debt retirement and reductions in several liability categories, including post retirement benefits, deferred revenue, and accounts payable.

The market recognized our continued strength during our debt issuance in April. S&P and Moody's deemed our outlook to be stable and affirmed our ratings of A+ and A2, respectively.

The following discussion and analysis provides an overview of the financial position of the University of Dayton for the year ended June 30, 2018 with comparative information for the previous year ended June 30, 2017. This overview has been prepared by management and should be read in conjunction with the audited financial statements and the notes that follow this section.

Andrew T. Horner
Executive Vice President for Business and Administrative Services

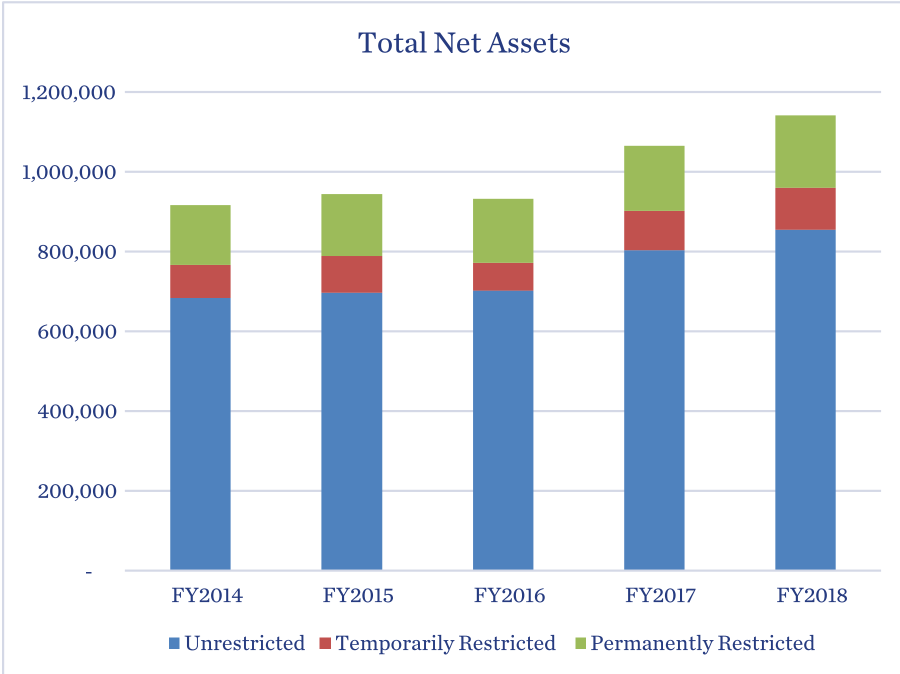
Financial Position

- The University's total assets increased by $114.8 million to $1.77 billion, with all asset types experiencing growth. Total investments increased by more than $100 million and were buoyed by investment returns of $58.5 million along with invested bond proceeds of $47.6 million dollars. Ongoing renovations and construction on new facilities increased land, building and equipment by $59.1 million. Receivables increased due to higher throughput on research contracts with record billings in the late months of the year.

- Total liabilities increased by $20.6 million. The primary driver of this increase was the issuance of $71.6 million in new debt. This increase was offset by bond principal payments of $13.5 million, decreases in accounts payable of $7.3 million, deferred revenue decreases of $10.8 million, and the change in unrealized loss on interest rate swap obligations of $4.6 million. Post-retirement benefit obligations contributed additional reductions of $15.9 million.

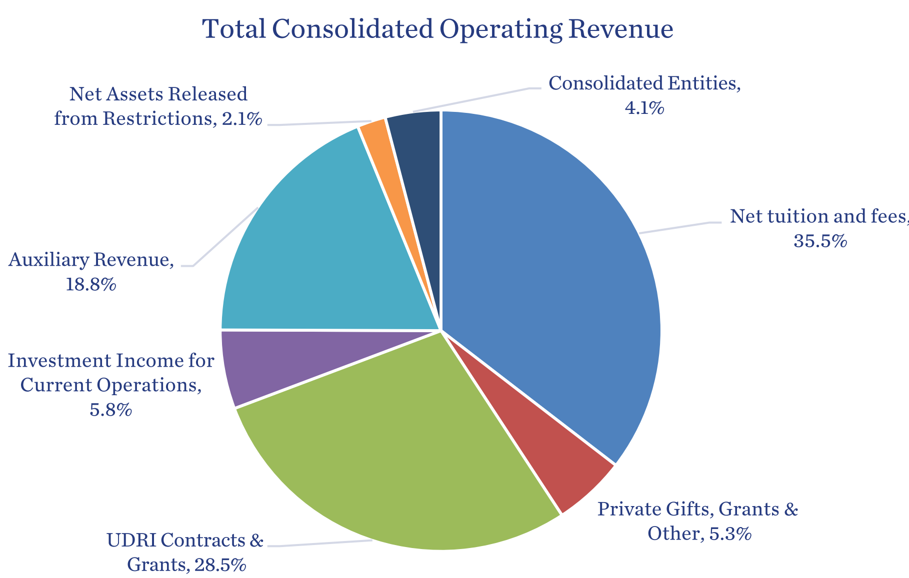
- Total net assets grew by $94.3 million in 2018 from $1.066 billion to $1.160 billion. Unrestricted net assets increased by $69.4 million compared to $101.2 million in 2017. This increase was due to operating returns of $30.4 million plus non-operating gains on investments, interest rate swap agreements, and post-retirement benefit obligations. Restricted and temporarily restricted net assets increased by $24.8 million due to the additional pledges received for the Arena Transformation along with strong investment returns on the true endowments. This compared to an increase of $31.7 million in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2018



Operating Performance

Total consolidated operating revenues grew from $549.3 million to $574.2 million in 2018. The University's major revenue components are summarized below:

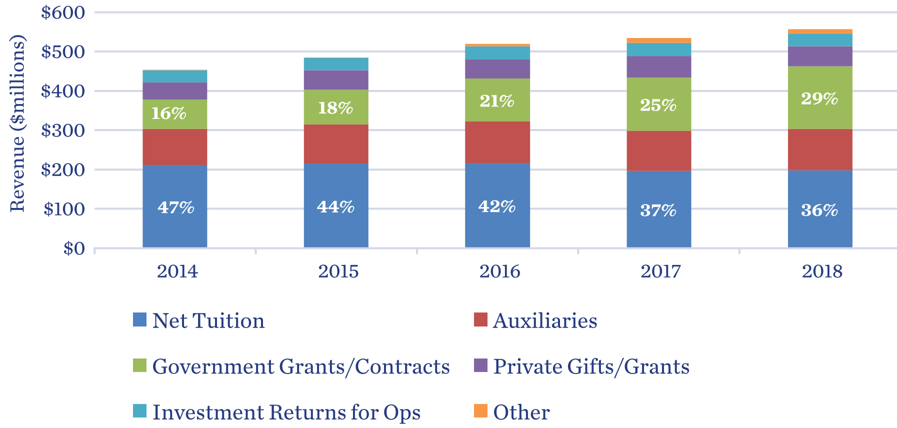


- Net tuition and fee revenue remained essentially flat year over year compared to a reduction in tuition revenue in the prior year. While the University increased undergraduate enrollment from 7,900 to 8,100 students, it came with additional student aid costs.
- Government grant and contract revenue grew from $126.1 million in 2017 to $149.1 million in 2018. The Research Institute recorded $13.4 million (9.9%) revenue growth over 2017. Also included is an accounting adjustment of $10.8 million for previously unrecorded revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Year Ended June 30, 2018

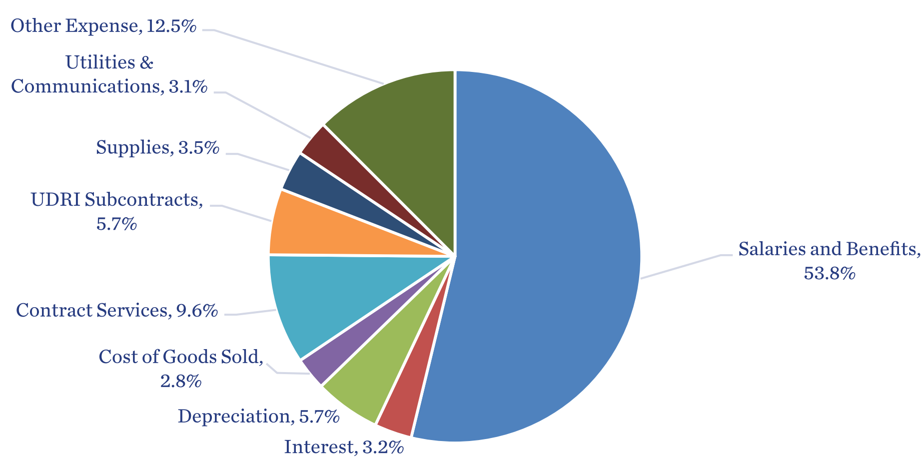
Consolidated Unrestricted Operating Revenue Trends



The University's revenue diversification strategy can be viewed in some of the trends in the above chart. Revenue from sponsored research has increased as a proportion of total revenues from 16% in 2014 to 29% in 2018. Similarly, the reliance on net tuition revenue has decreased from 47% to 36% over the same period. Modest proportional revenue growth can also be seen in auxiliaries and some of our consolidated operations, including the facility that houses GE Aviation and the Marriott at the University of Dayton.

Operating expenses for the University grew by 7.0% from $492.5 million to $527.1 million in 2018. The major components are summarized below:

Total Consolidated Operating Expenditures



- Salaries and benefits grew by 5.6% to $283.5 million in 2018. This reflects merit-based salary increases as well as strategic head count increases in marketing, advancement, online programs and various faculty and staff compliance positions.
- Contract services and maintenance grew to $80.7 million in 2018 from $73.5 million in 2017. $4.5 million of this increase was due to increased sub-award activity in the Research Institute. There was approximately $1.0 million in facility repairs and maintenance.
- Supplies increased from $15.0 million to $18.4 million. These increases were in all supply categories with approximately $0.8 million increase in IT supplies as the largest growth area.
- Other expenditures increased $7.4 million. Much of this increase ($5.1 million) was due to the federally sponsored and titled equipment purchased on contracts in the Research Institute.
- Many expense areas experienced minimal growth in the year due to strategic sourcing initiatives and Common Good spending practices. Strategic sourcing reduced expenditures in the areas of utilities, airline travel, stockroom supplies, and some contracted services.

Capital and Debt

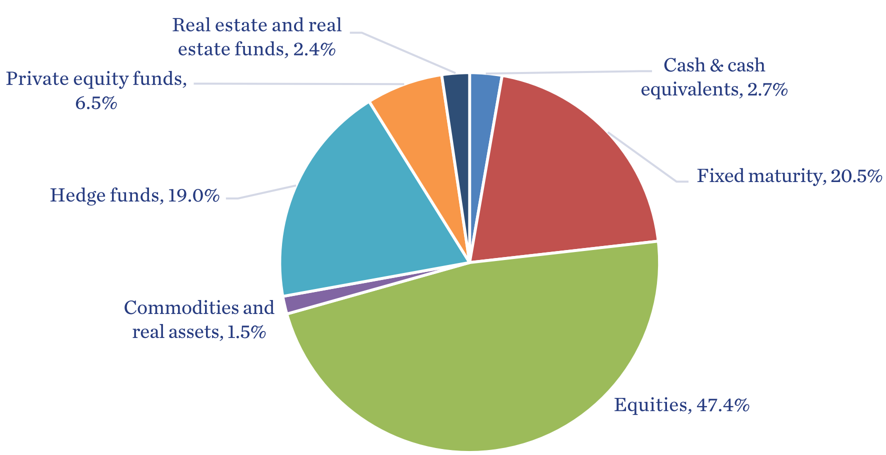
- Major capital activity in 2018 included the following projects:
    - The arena transformation project continued into Phase II. Phase I was capitalized for $11.8 million dollars and included infrastructure work and new seating in the lower arena. Phase II includes work on both concourses as well as the exterior skin of the building.
    - The University substantially completed a new residential facility in 2018. The $11.2 million dollar facility houses 96 upper class students as well as gathering and meeting spaces for student groups and staff. The facility also included the installation of solar arrays which provide approximately 18% of the building's power.
    - A significant renovation was started on the first and second floors of the main library on campus. This $10.7 million dollar renovation continues into 2019 and includes asbestos removal and the installation of a fire protection system.
    - The renovation started in 2016 on the hotel adjacent to campus was completed in late 2017. The hotel is now fully operational and fully renovated.
    - The University partnered with an Ohio corporation to install two solar arrays on campus. The arrays will be commissioned in early fiscal year 2019. These arrays will generate approximately 10% of the power needed in the two buildings they are installed on or near and 2% of the overall campus load.
    - The University closed on Series 2018A bonds through the Ohio Higher Education Facilities Commission in April 2018. Proceeds from this bond issue are financing a portion of the renovations of the Arena, the renovations at the main library on campus, a new residential facility and renovations for research labs.
    - The overall debt balance for the University grew by the previously mentioned bond issue as well as two new notes. These notes were used to purchase property located near campus. The additional debt of $71.6 million was reduced by normal debt retirement of $13.5 million dollars and normal amortizations of premiums and issuance costs netting an increase of $61.7 million for 2018.

With the new bonds being issued, the University's bond ratings were affirmed. The University holds ratings of A2 Stable with Moody's and A+ Stable with Standard and Poor's.

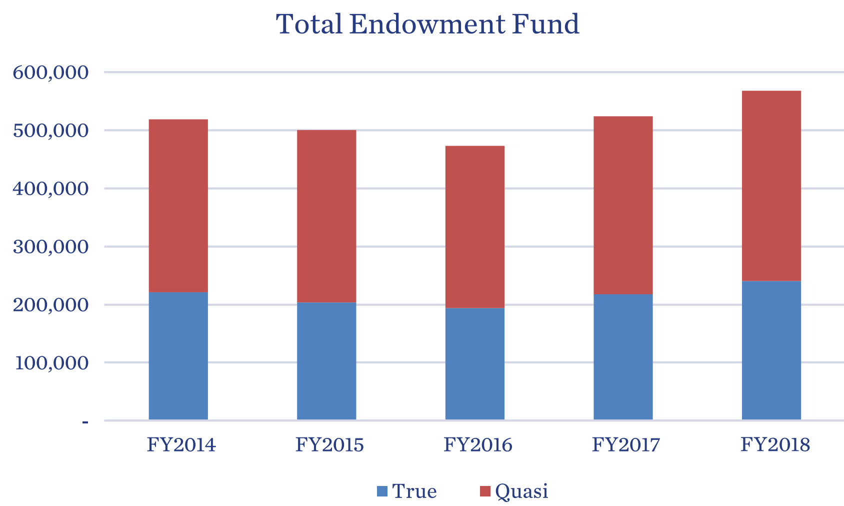
Investments and Endowed Funds

- The University's investments grew from $802.0 million in 2017 to $902.3 million in 2018. The makeup of the University's investment pool is summarized below:

Investment Breakdown



- The endowment funds grew from $524.2 million in 2017 to $567.3 million in 2018. This growth included contributions of $15.5 million, investment earnings of $35.7 million, and other additions of $11.9 million. The University withdrew $20.0 million for its annual spending appropriation to support current operations.



Looking ahead

Fiscal year 2019 promises to continue the growth and success of the University. As we continue on our common good strategic plan, we anticipate the financial success of these upcoming endeavors:

- The University embarked on two strategic partnerships to enhance and enlarge the student body. The first of these is a partnership with 2U to form multiple hybrid online graduate programs, starting in July 2017 with a new online MBA program. Additional programs in Education and Law are scheduled to launch in the next academic year. The second partnership looks to enhance the diversity of our student body by growing our international student population. The University began enrolling new students in the fall to this new program.
- The University is continuing our involvement in the Dayton area community by partnering with two community organizations. The University is constructing a new building to house these organizations along with the University's Fitz Center for Community Involvement. Groundbreaking for this facility occurred in early October with anticipated completion next summer.
- On September 4th, the University closed on a second bond issue for the calendar year. This issue refinances the University's Series 2009 Revenue Bonds.
- The University will be working to unwind the New Market Tax Credit financing arrangement it entered in 2012. This financing was used to construct an office and research facility on campus. The University will be able to purchase the shares of the single member LLC's who own the debt. This will allow the University to consolidate and remove the debt and the receivable of $27.5 million currently on its books.
- With its partner, the University is working to solidify plans and financing for the onMain project to revitalize the site of the former fairgrounds located next to campus. The venture will work with community partners to obtain financing and to clear the site to make it ready for future development. The University and its partner are working to create the governance structure needed for day-to-day operations as the project moves forward.


THE ETHOS CENTER
OHIO
OREGON
VERMONT
THE

2017-18

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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Dayton, Ohio
October 17, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017
(IN THOUSANDS)

		2018		2017
Assets				
Cash	**$**	**24,909**	$	46,522
Collateral held for securities lending agreement (Note 3)		**2,023**		3,875
Accounts receivable - net (Note 4)		**63,119**		54,168
Pledges receivable - net (Note 4)		**36,883**		34,158
Inventories, prepaid expenses and other		**7,744**		6,606
Notes receivable - net (Note 4)		**36,576**		37,848
Investments and assets held by others (Notes 5, 6, 11)		**902,351**		801,990
Land, buildings, and equipment (Note 7)		**700,726**		674,337
Total assets	**$**	**1,774,331**	$	1,659,504
Liabilities				
Accounts payable	**$**	**22,811**	$	30,169
Accrued payroll and compensated absences		**23,045**		21,565
Liability under securities lending agreement (Note 3)		**2,230**		4,083
Other liabilities		**17,531**		20,092
Deferred revenue and student deposits		**12,377**		22,685
Split interest agreement obligations (Note 6)		**12,058**		12,083
Interest rate swap obligations (Note 9)		**7,445**		12,089
Indebtedness (Note 8)		**441,907**		380,193
Accrued postretirement benefits (Note 10)		**62,674**		78,611
Advances from government for federal loans		**11,998**		11,955
Total liabilities	**$**	**614,076**	$	593,525
Net Assets (Note 12)				
Unrestricted		**872,537**		803,164
Temporarily restricted		**105,592**		98,986
Permanently restricted		**181,870**		163,707
Noncontrolling interest		**256**		122
Total net assets		**1,160,255**		1,065,979
Total liabilities and net assets	**$**	**1,774,331**	$	1,659,504

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2018
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenues, gains and other support:				
Student tuition and fees	$ 386,441	$ -	$ -	**$ 386,441**
Less: student aid	(188,804)	-	-	**(188,804)**
	197,637	-	-	**197,637**
Private gifts, grants and other (Note 14)	48,801	13,212	15,167	**77,180**
Private research contracts	12,302			**12,302**
Government grants and contracts	149,142	-	-	**149,142**
Investment return designated for current operations (Note 5)	32,268	-	-	**32,268**
Auxiliary enterprises	105,714	-	-	**105,714**
	545,864	13,212	15,167	**574,243**
Net assets released from restrictions	11,625	(14,332)	2,707	-
Total revenues, gains, and other support	557,489	(1,120)	17,874	**574,243**
Expenditures:				
Salaries and benefits	283,469	-	-	**283,469**
Interest expense	17,082	-	-	**17,082**
Depreciation	30,131	-	-	**30,131**
Cost of sales	14,976	-	-	**14,976**
Contract services and maintenance	80,672	-	-	**80,672**
Supplies	18,393	-	-	**18,393**
Utilities and communications	16,495	-	-	**16,495**
Other expenditures	65,881	-	-	**65,881**
	527,099	-	-	**527,099**
Change in net assets from operations	30,390	(1,120)	17,874	**47,144**
Non-operating activities:				
Investment return in excess of amounts designated for current operations (Note 5)	8,926	17,061	289	**26,276**
Actuarial change in annuities		(1,370)		**(1,370)**
Change in unrealized gain on interest rate swap agreements	4,644			**4,644**
Change in postretirement benefit obligation (Note 10)	17,582			**17,582**
Net assets released from restrictions	7,965	(7,965)		-
Change in non-operating activities	39,117	7,726	289	**47,132**
Change in net assets	69,507	6,606	18,163	**94,276**
Less: change in net assets attributable to the noncontrolling interest	134			**134**
Change in net assets attributable to the University of Dayton	69,373	6,606	18,163	**94,142**
Net assets at beginning of year	803,164	98,986	163,707	**1,065,857**
Net assets at end of year	$ 872,537	$ 105,592	$ 181,870	**$ 1,159,999**

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 deficient from 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 CASH FLOWS

YEAR ENDED JUNE 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Operating activities:		
Change in net assets	**$ 94,276**	$ 132,826
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**30,131**	27,948
Amortization	**(973)**	(920)
Gifts for restricted purposes	**(15,167)**	(3,035)
Net realized and unrealized gains on investments	**(34,845)**	(82,443)
Income restricted for long-term investment	**(608)**	(602)
Change in postretirement benefit obligation	**(15,937)**	(7,915)
Gain on interest rate swap agreements	**(4,644)**	(6,068)
Cash provided by operating assets and liabilities:		
Increase in receivables	**(11,676)**	(25,807)
(Increase) decrease in inventories, prepaid expenses and other	**(1,168)**	9,160
(Decrease) increase in accounts payable, accrued liabilities, and other liabilities	**(8,464)**	15,411
Decrease in deferred revenue and student deposits	**(10,308)**	(176)
Net cash provided by operating activities	**20,617**	58,379
Investing activities:		
Income restricted for long-term investment	**608**	602
Proceeds from the sale of investments	**409,151**	327,490
Purchases of investments	**(474,668)**	(336,135)
Additions of land, buildings and equipment, net of nominal disposals	**(56,008)**	(67,886)
Net cash used in investing activities	**(120,917)**	(75,929)
Financing activities:		
Increase in advances from government for federal loans	**43**	45
Gifts for restricted purposes	**15,167**	3,035
Decrease in notes receivable	**1,272**	865
Proceeds on indebtedness	**71,495**	20,870
Premium on bond issuance	**5,903**	(344)
Payments on indebtedness	**(15,193)**	(34,842)
Net cash provided by (used in) financing activities	**78,687**	(10,371)
Net decrease in cash	**(21,613)**	(27,921)
Cash:		
Beginning	**46,522**	74,443
Ending	**$ 24,909**	$ 46,522

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 8,100 undergraduate and 2,100 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

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 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 $1,125 in 2018 and $1,240 in 2017. 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 $254 and $352 in 2018 and 2017, respectively. The University has also recorded a pledge of $1,500 from the Marianists payable over the next three years.

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 $2,912 in 2018 and $4,993 in 2017 from this entity.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 statement of financial position as deferred revenue.

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Pledges 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 pledges 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 obligations being met 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. The amount of cash and cash equivalents carried in the consolidated statements of financial position represents fair value in accordance with Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures*.

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 pledges 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. Facilities determines cost using an average cost method.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 or the last reported sale price on the last business day of the fiscal year.

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 using 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, as trustee, 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 statement 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 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 2014 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, 2018 or 2017.

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.

Functional expenses: Expenses have been classified as instruction, administrative and general, libraries, sponsored academic projects, organized research, auxiliary operations, fundraising and related entities. These are classified based on direct expenditure where possible. Natural expenses attributable to more than one functional expense category are allocated proportionally by assigned square footage.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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

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 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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This accounting standard provides further guidance for contributions received and contributions made and will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance. The guidance also provides clarity on determining whether a contribution is conditional. ASU 2018-08 will be effective for the University's fiscal year beginning after December 15, 2017. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

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.

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, 2018, securities on loan totaled $22,785 for which a total amount of $23,316 of collateral was posted by the borrowers; the market value of the cash collateral held was $2,230. 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. As a result of the changes in the fair value of the invested cash collateral at June 30, 2018 and 2017, the University recorded gains of approximately $1 and $25, respectively. The results of changes in the fair value of invested collateral are included in investment gain in excess of or deficient from 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, 2018 and 2017 was $21,086 and $11,547, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 4. Receivables

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

	2018	2017
Amounts due from students for tuition and other costs	$ 6,792	$ 7,560
Grants and contracts	48,362	37,127
Related entities	5,685	5,315
Other	3,609	5,639
	64,448	55,641
Less: allowance for doubtful accounts	(1,329)	(1,473)
Total accounts receivable, net	$ 63,119	$ 54,168

Pledges receivable, net: Outstanding pledges receivable, as of June 30, 2018 and 2017, respectively, are as follows:

	2018	2017
Less than one year	$ 15,641	$ 15,097
One to five years	18,912	16,233
More than five years	5,965	6,020
	40,518	37,350
Less: discount on pledges	(1,694)	(1,394)
Less: allowance for uncollectible pledges	(1,941)	(1,798)
Total pledges receivable, net	$ 36,883	$ 34,158

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

	2018	2017
Office and research facility (Note 16)	$ 27,315	$ 27,315
Student loans under government loan programs	10,628	12,239
Other notes	506	168
	38,449	39,722
Less: allowance for doubtful accounts for student loans	(1,873)	(1,874)
Total notes receivable, net	$ 36,576	$ 37,848

(IN THOUSANDS)

Note 5. Investments

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

	2018	2017
Cash and cash equivalents	$ 23,242	$ 27,868
Fixed maturity:		
US Treasuries	47,671	913
Mutual funds and pooled accounts		
Domestic	21,914	25,305
International	17,151	13,089
Individual securities		
Domestic	133,181	102,732
Total fixed maturity	219,917	142,039
Equities:		
Mutual funds and pooled accounts:		
Domestic	46,129	35,892
International	178,292	204,773
Individual securities:		
Domestic	184,237	159,080
Total equities	408,658	399,745
Exchange traded commodities and real assets	12,358	14,122
Hedge funds	154,925	146,082
Private equity funds	53,707	55,406
Real estate and real estate funds	26,836	14,275
Assets held by others	1,062	1,013
Other	1,646	1,440
Total	$ 902,351	$ 801,990

Approximately $816,377 and $759,477 of the carrying value of investments as of June 30, 2018 and 2017, 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 $77,556 and$66,834 as of June 30, 2018 and 2017, 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.

(IN THOUSANDS)

Note 5. Investments (Continued)

The University incurred investment-related expenses, such as custodial fees and investment advisory fees, of $2,521 and $2,353 in 2018 and 2017, respectively.

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 23,095	$ 329	$ 275	$ 23,699
Net realized and unrealized gains	18,099	16,732	14	34,845
Gross return on investments	41,194	17,061	289	58,544
Investment return designated for current operations	(32,268)	-	-	(32,268)
Investment return in excess of amounts designated for current operations	$ 8,926	$ 17,061	$ 289	$ 26,276

	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 in excess of amounts designated for current operations	$ 33,502	$ 27,964	$ 52	$ 61,518

Note 6. Split Interest Agreements

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

	2018	2017
Assets:		
Charitable remainder trusts	$ 11,005	$ 14,162
Charitable gift annuities	4,771	4,527
Total	$ 15,776	$ 18,689
Liabilities:		
Split interest agreement obligations	$ 12,058	$ 12,083

Contributions related to split interest agreements totaled $1,271 and $244 for the years ended June 30, 2018 and 2017, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 7. Land, Buildings, and Equipment

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

	2018	2017
Buildings	$ 747,235	$ 698,768
Equipment	165,230	152,379
Land and land improvements	102,248	97,049
Library books	78,298	75,420
Renovations-in-progress	23,771	39,938
	1,116,782	1,063,554
Accumulated depreciation	(416,056)	(389,217)
	$ 700,726	$ 674,337

Depreciation expense was $30,131 and $27,948 in 2018 and 2017 respectively.

Construction Commitments: During 2017, the University committed to renovate and improve the University's athletics arena. The costs of the renovation and improvements to the University's facility are estimated to total $76,200. As of June 30, 2018, the University was contractually committed for construction and architectural services totaling $46,454. The University had incurred $24,119 of costs through 2018.

During 2017, the University committed to constructing a new residential facility. The construction costs are estimated to total $11,200. As of June 30, 2018, the University was contractually committed for construction and architectural services totaling $3,466. The University had incurred $7,147 of costs through 2018.

During 2018, the University committed to renovating the first and second floor of the primary campus library. The costs of the renovation and improvements to the University's facility are estimated to total $10,700. As of June 30, 2018, the University was contractually committed for construction and architectural services totaling $7,337. The University had incurred $1,433 of costs through 2018.

(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. Total indebtedness for the years ended June 30 was as follows:

	2018	2017
Notes and term loan:		
Term loan	$ 25,865	$ 26,710
111 River Park, LLC–notes payable	35,996	35,996
Senior secured note	21,430	23,023
Other various notes	2,213	208
Revenue bonds:		
2003, due serially	12,075	15,625
2006, due serially	23,915	24,630
2009, due serially	56,055	60,225
2011A, due serially	14,810	16,585
2013, due serially	53,325	54,775
2015A, due serially	49,775	49,775
2015B, due serially	18,945	19,690
2016A, due serially	28,000	28,000
2016B, due serially	20,870	20,870
2018A, due serially	69,110	-
	432,384	376,112
Net unamortized premium	13,852	8,460
Net unamortized issuance cost	(4,329)	(4,379)
	$ 441,907	$ 380,193

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 August 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 was 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 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 $177 to $1,467 per year from November 1, 2018 through September 30, 2041, with a payment of $14,021 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.

Note8. 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 $382,000) 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 $1,100 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 $715 to $5,345 are due annually through final maturity in 2024.

The 2009 Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.5%. Principal payments ranging from $2,335 to $4,170 are due annually through final maturity in 2019.

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 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 0.9% to 4.335%. Principal payments ranging from $595 to $1,765 are due annually 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 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 2018A Revenue Bonds bear interest at a fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from $1,015 to $ 4,050 are due annually beginning in 2019 through final maturity in 2049.

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:

2019	$ 15,283
2020	14,376
2021	27,128
2022	26,877
2023	16,014
2024 and there after	332,706
Total	$ 432,384

Interest expense was $17,082 for 2018 and 18,249 for 2017. Interest capitalized was $373 for 2018 and $282 for 2017. Cash paid for interest was $17,229 for 2018 and $18,224 for 2017.

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, which are $25,000 and $20,000, are due to expire on February 28, 2019 and December 31, 2018, respectively. As of June 30, 2018 and 2017 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 $7,220. The University guarantee coincides with the term of the loan, which matures on April 3, 2019. The University has an agreement to lease property from this partnership with a minimum payment of approximately $500 per year.

As of June 30, 2018, 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 the variable interest amounts under the swap agreements is recorded as interest expense. The change in the 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 $25,999 and $26,844 at June 30, 2018 and 2017 respectively. The fair value of this agreement as of June 30, 2018 and 2017 is recorded as a liability of $2,092 and $3,982, 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, 2018 and 2017 is $23,915 and $24,630, 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, 2018 and 2017 is recorded as a liability of $698 and $1,276, respectively in the accompanying consolidated statements of financial position.

Also 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, 2018 and 2017 is $12,075 and $15,625, 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, 2018 and 2017 is recorded as a liability of $217 and $494, 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, 2018 and 2017 is recorded as a liability of $4,438 and $6,337, 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 cost to fund these benefits was $11,998 in 2018 and $11,390 in 2017.

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

(IN THOUSANDS)

Note 10. Retirement Plans (Continued)

The University also 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 $1,315 in 2018 and $1,198 in 2017. 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:

	2018	2017
Service cost of benefits earned	$ 1,756	$ 1,895
Interest cost on liability	2,795	2,831
Amortization of net loss	671	-
Net periodic post retirement benefit cost	$ 4,551	$ 5,397

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:

	2018	2017
Change in projected benefit obligations:		
Projected benefit obligation, beginning of year	$ 78,611	$ 86,526
Service cost	1,756	1,895
Interest cost	2,795	2,831
Actuarial gain	(17,582)	(9,074)
Benefits paid	(2,906)	(3,567)
Projected benefit obligation, end of year	62,674	78,611
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	-	-
Employer contributions	2,906	3,567
Benefits paid	(2,906)	(3,567)
Fair value of plan assets, end of year	-	-
Net liability on the statements of financial position	$ 62,674	$ 78,611

(IN THOUSANDS)

Note 10. Retirement Plans (Continued)

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

	2018	2017
Actuarial gain	$ 17,582	$ 9,074
Prior service cost		
Amortization of net loss	-	670
	$ 17,582	$ 9,744

There are unrecognized actuarial (gains)/losses of ($11,904) and $5,678 included in unrestricted net assets at June 30, 2018 and 2017, 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:

	2018	2017
Weighted-average discount rate used to determine the projected benefit obligation	3.93%	3.65%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	3.65%	3.35%

The University used the RP2017 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 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:

	2018	2017
Initial year trend:		
Combined trend pre-Medicare	6.60%	6.60%
Combined trend post-Medicare	7.60%	7.40%
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	2039	2038

(IN THOUSANDS)

Note 10. Retirement Plans (Continued)

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, 2018, and the net periodic benefit cost:

	1.00% Increase	1.00% Decrease
Effect on postretirement benefit obligation	$ 5,578	$ (4,861)
Effect on net periodic benefit cost	781	(672)

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:	
2019	$ 3,750
2020	3,982
2021	4,170
2022	4,302
2023	4,460
2024–2028	23,463

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, 2018 and 2017 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, 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.

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

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.

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

	2018			
	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	$ 868	$ 22,374	$ -	$ 23,242
US Treasuries	46	47,625	-	47,671
Fixed maturity:				
Mutual funds				
Domestic	21,914			21,914
International	17,151			17,151
Individual securities		133,181		133,181
Equities:				
Mutual funds:				
Domestic	46,129	-	-	46,129
International	178,292	-	-	178,292
Individual securities:				
Domestic	184,237	-	-	184,237
Exchange traded commodities and real estate	-	8,661	-	8,661
Assets held by others [(b)]	-	-	1,062	1,062
Guaranteed investment contract	-	-	1,646	1,646
	448,637	211,841	2,708	663,186
Investments reported at fair value based on net asset value and equity method:				
Private equity funds [(a)]				53,707
Real estate and real estate funds [(a)]				19,209
Real assets [(a)]				3,697
Hedge funds [(a)]				154,925
Real estate - equity method				7,627
Total investment assets	448,637	211,841	2,708	902,351
Collateral held for securities lending agreement:				
Cash and cash equivalents	-	-		2,023
Total assets at fair value	$ 448,637	$ 211,841	$ 2,708	$ 904,374
Liabilities:				
Interest rate swap obligation	$ -	$ 7,445	$ -	$ 7,445

(IN THOUSANDS)

Note 11. Fair Value of Financial Instruments (Continued)

	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				
Domestic	25,305	-	-	25,305
International	13,089	-	-	13,089
Individual securities				
Domestic		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 estate	-	10,426	-	10,426
Assets held by others [(b)]	-	-	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 [(a)]				55,406
Real estate and real estate funds [(a)]				4,234
Real assets [(a)]				3,696
Hedge funds [(a)]				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

(a) 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.

(b) The fair value of benefit 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.

(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]	$ 53,707	$ 66,555		
Real estate and real estate funds [b]	19,209	15,202		
Real assets [c]	3,697	446		
Hedge funds - Equity long/short [d]	30,185	-	monthly, quarterly	30-60 days
Hedge funds - Event driven [e]	33,683	-	quarterly	45-90 days
Hedge funds - Global opportunities [f]	17,013	-	monthly, quarterly	3-45 days
Hedge funds - Relative value [g]	63,668	-	quarterly, annually	60-90 days
Hedge funds -Multi-strategy [h]	10,376	-	quarterly, annually	65-90 days
Total	$ 231,538	$ 82,203		

**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, 2018.

[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, 2018.

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, 2018.

(d) 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, 2017	$ 1,013	$ 1,440	$ 2,453
Total gains or losses for the period included in earnings (or changes in net assets)	64	48	112
Purchases	22	196	218
Sales	(37)	(38)	(75)
Balance at June 30, 2018	$ 1,062	$ 1,646	$ 2,708

	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		506	506
Sales	(11)	-	(11)
Balance at June 30, 2017	$ 1,013	$ 1,440	$ 2,453

There were no significant transfers in and out of Level 1, 2, or 3 during the period ending June 30, 2018 or 2017.

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.

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 indebtedness is approximately $409,951 as of June 30, 2018. For fixed-rate debt, the fair market value is based on an estimate of the prevailing market yield and resulting price for each maturity of debt. The market yield is impacted by several factors including credit, length of maturity, coupon, and optional redemption provisions. Variable rate debt that is callable by the borrower at any time is generally valued at par.

(IN THOUSANDS)

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:

	2018	2017
Instruction	$ 31,581	$ 29,280
Administrative and general	7,383	6,974
Organized Research	77	97
Libraries	4,138	3,861
Student aid	43,712	41,429
Auxiliary enterprises	18,701	17,345
	$ 105,592	$ 98,986

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

	2018	2017
Instruction	$ 62,124	$ 57,351
Administrative and general	12,921	12,522
Organized research	2,496	2,457
Libraries	4,585	4,560
Student aid	98,821	85,894
Auxiliary enterprises	923	923
	$ 181,870	$ 163,707

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.

(IN THOUSANDS)

Note 13. Endowment Funds (Continued)

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 $1,247 and $1,772 recorded as of June 30, 2018 and 2017, 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.

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, 2017	$ 305,052	$ 61,900	$ 157,234	$ 524,186
Investment return:				
Investment income	10,893	-	275	11,168
Net appreciation (depreciation) (realized and unrealized)	9,467	15,065	14	24,546
Contributions	204	-	15,283	15,487
Other (additions and deletions to endowment)	11,929	-	-	11,929
Appropriation of endowment assets for expenditure	(12,040)	(7,965)	-	(20,005)
Endowment net assets at June 30, 2018	$ 325,505	$ 69,000	$ 172,806	$ 567,311

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 13. Endowment Funds (Continued)

	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

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,247)	$ 69,000	$ 172,806	$ 240,559
Board-designated endowment funds	326,752	-	-	326,752
	$ 325,505	$ 69,000	$ 172,806	$ 567,311

	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

(IN THOUSANDS)

Note 14. Private Gifts, Grants, and Other

Private Gifts, Grants, and Other include the following:

	Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gifts	$ 6,831	$ 13,212	$ 14,725	$ 34,768
Sponsored projects	13,587	-	-	13,587
Related entities	21,747	-	-	21,747
Miscellaneous income	7,078	-	-	7,078
Transfers between restrictions	(442)	-	442	-
	$ 48,801	$ 13,212	$ 15,167	$ 77,180

	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

Note 15 Functional Classification of Expenses

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

	2018	2017
Instruction	$ 149,099	$ 144,400
Administrative and general	69,379	57,844
Libraries	12,462	12,436
Sponsored academic projects	12,430	11,376
Organized research	145,383	132,715
Auxiliary enterprises	107,177	105,898
Fundraising	9,383	8,307
Related entities	21,786	19,532
	$ 527,099	$ 492,508

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)

Note 16. Consolidated Entities

Hotel operations: The University is a member of a joint venture to own 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:

	2018	2017
Assets:		
Land, buildings and equipment	$ 37,933	$ 39,775
Liabilities and equity:		
Senior secured note	$ 21,430	$ 23,022
University net assets	2,311	1,107
Noncontrolling interest	256	122

Note 17. Subsequent Events

On August 19, 2018, the University completed and opened a new residential facility. The $11,000 facility will house 96 students along with staff offices and student meeting and gathering spaces. The facility was financed with proceeds of the 2018A Bonds obtained in fiscal year 2018.

In October 2018, the University signed agreements with two local not-for-profits to lease space in a facility to be constructed on campus. The University will also occupy part of the $8,400 facility. The construction will be financed by working capital of the University and $1,980 of debt.

On September 4, 2018, the University issued $48,775 in tax exempt bonds through the Ohio Higher Education Facilities Commission. The bonds have a fixed interest rate ranging from 4.0% to 5.0% and come due annually through 2036. The University will use the proceeds to refund a portion of the 2009 Series Bonds, which are callable on December 1, 2018.

The University has evaluated and disclosed any subsequent events through October 17, 2018, which is the date the financial statements were issued and made available.

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2018-19

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2018-19

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