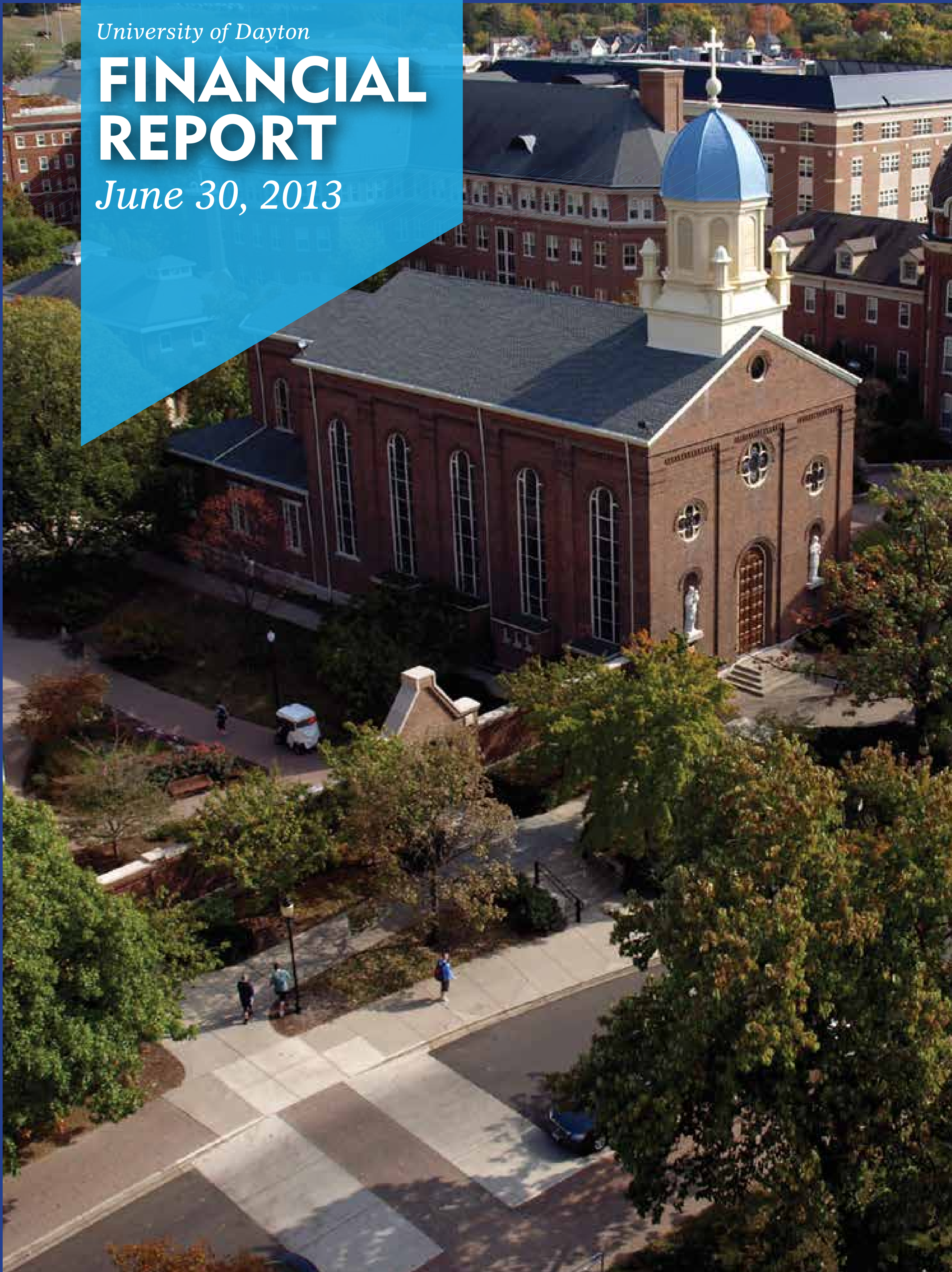
University of Dayton

FINANCIAL REPORT

June 30, 2013



COMPARATIVE SUMMARY INFORMATION

(All Dollar Amounts in Thousands)

	2008-09	2009-10	2010-11	2011-12	2012-13
Endowment - Market	$328,968	$355,550	$423,419	$407,358	$450,612
Physical Plant - Carrying Value (Excluding Depreciation)	665,178	702,055	729,303	774,981	877,427
Physical Plant - Insurable Value	881,682	955,622	962,663	1,005,953	1,086,740
Long Term Debt	303,032	301,689	304,046	355,399	380,966
Enrollment - Full Time - Undergraduate	7,136	6,900	7,156	7,310	7,479
Enrollment - Law School	484	503	530	493	419
Enrollment - Graduate School	2,705	2,999	2,935	2,709	2,698
Total Enrollment - Full and Part Time	10,920	10,909	11,199	11,063	11,186
Degrees Awarded - Undergraduate	1,933	1,848	1,820	1,917	1,856
Degrees Awarded - Graduate	987	978	1,124	1,130	1,016

FINANCIAL REPORT

June 30, 2013

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
University of Dayton

We have audited the accompanying consolidated financial statements of the University of Dayton (the University), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2013 and 2012, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

October 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

for Year Fiscal Year Ended 6/30/13

Introduction

The following discussion and analysis provides an overview of the financial position of the University of Dayton for the year ended June 30, 2013 with comparative information for the previous year ended June 30, 2012. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes that follow this section.

The University of Dayton is a private Roman Catholic national research university in Dayton, Ohio. Founded in 1850 by the Society of Mary, it is one of three Marianist universities in the nation and the largest private university in Ohio. The university's campus spans 388 acres in Dayton and has recently added the University of Dayton China Institute in Suzhou Industrial Park, China. The University has approximately 7,300 full time undergraduates, 3,000 graduate students and 700 part time students with a wide variety of backgrounds, drawn from across the United States and over 40 countries. The university offers more than 70 academic programs in arts and sciences, business administration, education and health sciences, engineering and law.

Financial Highlights

The University continued to produce strong financial results from operations, generating over $42 million of operating surplus compared to $36 million in the previous year. Cash flows were also strong for the year with $44.6 million provided from operating activities. These results were attributed to growing enrollment and increases in private gifts and grants as well as government research grants.

Total assets increased by 7.7% from $1.259 billion to $1.355 billion while liabilities remained relatively the same at $564 million compared to $564.3 million in 2012. Total net assets grew by 13.9% or $96.6 million due to strong operations, positive financial market conditions and changes to actuarial assumptions related to post retirement benefits. Significant financial events during fiscal year 2013 were:

- Total enrollment reached 11,186 resulting from first year undergraduate student levels that have averaged 2,025 over the last three fiscal years. The number of full-time undergrad students from outside Ohio increased to 49.1% from 45.7% in the previous year. International students comprised 6.5% of the undergraduates compared to 3.7% in fiscal year 2012, a 76% increase.

- Investments increased by $46.2 million (+7.7%) to a total of $642.9 million. The endowment, which is the largest component of investments, increased by $43.3 million (+10.6%) to a balance of $450.6 million. The primary cause of the endowment increase was due to investment gains of $36.2 million; gifts and other additions of $12.8 million and investment income of $9.0 million. Planned endowment spending of $14.7 million partially offset these increases.

- For fiscal year 2013, the University increased salaries by an average of 2.5%. However, total wage expenses grew by 4.2% to $167.1 million as full-time employment increased by 1.3% to a total of 2,297. Benefit expenses increased $5.9 million (+10.9%) to a total of $60.5 million. Employee and retiree health care accounted for $4.4 million of the change.

- The University added $105.7 million in fixed assets during fiscal year 2013, with approximately 43% of the additions still in progress at year-end. The majority of the in progress work was for the addition of a new on-campus office and research facility (total cost of $53 million) that opened in August, 2013. This facility is being leased to a Fortune 500 company under a 15 year lease with renewal options.

- At June 30, 2013, the University did not have funds drawn from its revolving line of credit as compared to $15 million outstanding at the end of fiscal year 2012.

- In 2012, the University and certain affiliated entities entered into a new market tax credit financing transaction to finance a portion of the new office and research facility in the amount of a $27.3 million term note with a bank. In addition, the University has a loan payable from its affiliate to other unrelated entities in the amount of $36.0 million. The principal amounts of these notes and loans remained the same at the end of fiscal year 2013.

Consolidated Statements of Financial Position

- Total assets grew by 7.7% or $96.3 million primarily from increases in investments of $46.2 million and an $81.5 million increase in net fixed assets. Major fixed asset additions included an on-campus office and research facility, new student apartments, and major upgrades to the University science center and library.

- Total liabilities were nearly unchanged, decreasing by only $.3 million. While total debt increased by $25.6 million to a total of $381 million, a reduction of short-term borrowing of $15 million, a decline in the accrued postretirement obligation of $6.7 million and reduction of other liabilities of approximately $4 million kept total liabilities level.

- Total unrestricted net assets grew by $91 million compared to a $23.1 million decline in 2012. This was the result of unrealized investment gains, strong operating results, changes in post-retirement benefit obligations and changes in unrealized losses on interest rate swap agreements. The 2013 investment gains were $39.4 million compared to losses of $36.3 million in 2012. In 2013, actuarial gains of $8.8 million were recognized relating to post-retirement benefits due to changes in the discount rate used to project the benefit obligation. Also in 2013, the University reflected a $6.4 million unrealized gain relating to the change in market value of interest rate swap agreements that were in place for bonds that have since been retired. Offsetting some of the 2013 gains was a loss on the defeasement of bonds in the amount of $2.2 million.

- Restricted and temporarily restricted net assets increased by $5.5 million due to new gifts and investment return. They increased $1.8 million in fiscal 2012.

Consolidated Statements of Activities

- Total net assets increased by $96.6 million in fiscal year 2013 compared to a $21.2 million decline in fiscal 2012. The major reason for the change was due to a $40.3 million gain in investments in 2013 compared to a loss of $37.5 in the prior year. This represents a total net asset change of $77.8 million. As previously discussed, the University recognized actuarial gains of $8.8 million relating to discount rate assumption changes for its post-retirement benefits, compared to actuarial losses of $12.9 million in 2012. Also, the liability value of interest rate swaps improved by $6.4 million compared to a loss of $12.9 million in the prior year. The 2013 change in total net assets was reduced by a loss on the defeasement of bonds in the amount of $2.2 million.

- Student related revenues grew by 6.6% or $17.9 million in fiscal year 2013 due to increasing enrollment and price increases of approximately 5%. The growth in net tuition and fees was $11.1 million while auxiliary revenues increased $6.8 million due to the addition of housing capacity, higher athletics revenue and price increases.

- Private gifts and grants increased to $49.6 million from $47.3 million in fiscal year 2013.

- Government grants and contracts increased by $4.4 million (+ 6%) to a total of $77.3 million. This was due to a growth in research contracts, however academic research remained flat.

- While operating revenues increased by 7.2%, operating expenditures increased by 6.1%. The growth in expenses was lowered by stable utility prices and only a slight increase in interest expense. Lower utilization of outside contractors for research projects also held back the overall expense increase.

Consolidated Statements of Cash Flows

- Cash decreased by $6.3 million in fiscal year 2013 primarily from an increase in accounts receivable and reductions of accounts payable and short term debt. Significant fixed asset additions of $105.7 million and the refinancing of $27.8 million of bonds were funded by a new fixed rate revenue bond of $57.5 million, operating cash flows of $44.6 million and reduction of a note receivable of $30 million.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	June 30	
	2013	**2012**
Assets		
Cash	**$ 28,175**	$ 34,435
Collateral held for securities lending agreement *(Note 3)*	**7,791**	6,659
Accounts receivable – less allowance of $2,894 in 2013 and $2,509 in 2012 *(Note 2)*	**42,238**	35,094
Pledges receivable – less allowance of $1,120 in 2013 and $1,265 in 2012 *(Note 4)*	**21,286**	24,034
Inventories	**3,155**	3,381
Prepaid expenses and other	**3,816**	3,788
Notes receivable – less allowance of $2,147 in 2013 and $1,811 in 2012 *(Note 2)*	**41,764**	72,187
Investments *(Note 5)*	**642,900**	596,674
Land, buildings, and equipment *(Note 6)*	**563,793**	482,335
Total assets	**$ 1,354,918**	$ 1,258,587
Liabilities		
Accounts payable	**$ 16,540**	$ 19,712
Short term notes payable *(Note 8)*	**–**	15,000
Accrued payroll	**9,827**	9,440
Accrued compensated absences	**11,298**	10,634
Liability under securities lending agreement *(Note 3)*	**8,082**	7,234
Other liabilities	**36,401**	40,638
Deferred income and student deposits	**17,647**	15,990
Indebtedness *(Note 8)*	**380,966**	355,399
Accrued postretirement benefits *(Note 7)*	**71,781**	78,523
Advances from government for federal loans	**11,487**	11,724
Total liabilities	**564,029**	564,294
Net assets *(Note 11)*		
Unrestricted	**583,150**	492,091
Temporarily restricted	**64,183**	62,700
Permanently restricted	**143,556**	139,502
Total net assets	**790,889**	694,293
Total liabilities and net assets	**$ 1,354,918**	$ 1,258,587

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2013
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Student tuition and fees	$ 302,255	$ –	$ –	$ 302,255
Less student aid	(102,703)	–	–	(102,703)
	199,552	–	–	199,552
Private gifts, grants and other *(Note 13)*	45,903	506	3,205	49,614
Government grants and contracts	77,307	–	–	77,307
Investment return designated for current operations *(Note 5)*	27,843	–	–	27,843
Auxiliary enterprises	90,004	–	–	90,004
	440,609	506	3,205	444,320
Net assets released from restrictions	2,300	(2,694)	394	–
Total revenues, gains, and other support	442,909	(2,188)	3,599	444,320
Expenditures				
Salaries and benefits	227,587	–	–	227,587
Interest expense	15,223	–	–	15,223
Depreciation	24,259	–	–	24,259
Cost of sales	10,992	–	–	10,992
Contract services and maintenance	46,935	–	–	46,935
Supplies	12,703	–	–	12,703
Utilities and communications	16,527	–	–	16,527
Other expenditures	46,247	558	–	46,805
	400,473	558	–	401,031
Change in net assets from operations	42,436	(2,746)	3,599	43,289
Investment return in excess of amounts designated for current operations *(Note 5)*	39,443	402	455	40,300
Change in unrealized loss on interest rate swap agreements	6,421	–	–	6,421
Change in postretirement benefit obligation	8,807	–	–	8,807
Loss on bond defeasement	(2,221)	–	–	(2,221)
Change in endowments operating at a loss	(3,827)	3,827	–	–
Change in net assets	91,059	1,483	4,054	96,596
Net assets at beginning of year	492,091	62,700	139,502	694,293
Net assets at end of year	$ 583,150	$ 64,183	$ 143,556	$ 790,889

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2012
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Student tuition and fees	$ 281,241	$ –	$ –	$ 281,241
Less student aid	(92,772)	–	–	(92,772)
	188,469	–	–	188,469
Private gifts, grants and other *(Note 13)*	40,639	1,368	5,339	47,346
Government grants and contracts	72,902	–	–	72,902
Investment return designated for current operations *(Note 5)*	26,983	–	–	26,983
Auxiliary enterprises	83,187	–	–	83,187
	412,180	1,368	5,339	418,887
Net assets released from restrictions	1,138	(1,138)	–	–
Total revenues, gains, and other support	413,318	230	5,339	418,887
Expenditures				
Salaries and benefits	215,143	–	–	215,143
Interest expense	15,136	–	–	15,136
Depreciation	22,390	–	–	22,390
Cost of sales	10,685	–	–	10,685
Contract services and maintenance	47,534	–	–	47,534
Supplies	10,823	–	–	10,823
Utilities and communications	15,574	–	–	15,574
Other expenditures	40,310	(679)	–	39,631
	377,595	(679)	–	376,916
Change in net assets from operations	35,723	909	5,339	41,971
Investment return in deficit of amounts designated for current operations *(Note 5)*	(36,297)	(1,635)	459	(37,473)
Change in unrealized loss on interest rate swap agreements	(12,868)	–	–	(12,868)
Change in postretirement benefit obligation	(12,862)	–	–	(12,862)
Change in endowments operating on a loss	3,229	(3,229)	–	–
Change in net assets	(23,075)	(3,955)	5,798	(21,232)
Net assets at beginning of year	515,166	66,655	133,704	715,525
Net assets at end of year	$ 492,091	$ 62,700	$ 139,502	$ 694,293

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Year Ended June 30 2013	2012
Operating activities		
Change in net assets	**$ 96,596**	$ (21,232)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**24,259**	22,390
Amortization	**(746)**	(546)
Gifts for restricted purposes	**(3,599)**	(5,339)
Net realized and unrealized (gains) losses on investments	**(57,088)**	23,362
Income restricted for long-term investment	**832**	708
Change in benefit obligations of OPEB plan	**(6,743)**	14,891
(Gains) loss on interest rate swap agreements	**(6,421)**	12,868
Cash (used in) provided by operating assets and liabilities:		
(Increase) in receivables	**(4,396)**	(302)
(Increase) decrease in inventories and prepaid expenses and other	**199**	(536)
(Decrease) increase in accounts payable, accrued liabilities, and other liabilities	**(813)**	10,333
(Decrease) increase in deferred income and student deposits	**2,534**	(5,727)
Net cash provided by operating activities	**44,614**	50,870
Investing activities		
Income restricted for long term investment	**(832)**	(708)
Proceeds from the sale of investments	**672,317**	548,652
Purchases of investments	**(661,740)**	(566,876)
Additions of land, buildings, and equipment net of nominal disposals	**(105,717)**	(48,152)
Net cash used in investing activities	**(95,972)**	(67,084)
Financing activities		
Increase in advances from government for federal loans	**(237)**	45
Gifts for restricted purposes	**3,599**	5,339
(Increase) decrease in notes receivable	**30,423**	(53,130)
Increase in notes payable	**25,000**	78,310
Payments on notes payable	**(40,000)**	–
Loan origination costs	–	(1,256)
Proceeds on bond issuance	**30,080**	–
Premium on bond issuance	**7,997**	–
Payments on indebtedness	**(11,764)**	(11,388)
Net cash provided by financing activities	**45,098**	17,920
Net increase (decrease) in cash	**(6,260)**	1,706
Cash and cash equivalents at beginning of the year	**34,435**	32,729
Cash and cash equivalents at end of the year	**$ 28,175**	$ 34,435

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013 and 2012
(All Dollar Amounts in Thousands)

1. Description of the Organization

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 recruited from 10 midwestern and eastern states, as well as other states across the nation and from foreign nations. The student population approximates 7,300 undergraduate and 3,000 graduate students. The University awards baccalaureate, master's 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 its Research Institute, the University also directs over $89,000 of research contracts, the majority of which are government funded.

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

- The University of Dayton;
- Nine legal 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; and
- River Park Development II, LLC, a wholly owned affiliate of The River Park Community Corporation.

The consolidated financial statements include the accounts of all controlled affiliates and that are required to be consolidated. Investments in joint ventures for which the University does not have control or are not the primary beneficiary, but have 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. All intracompany transactions and balances have been eliminated.

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.

Net Assets

Net assets are classified into three categories: unrestricted net assets, which have no donor-imposed restrictions; temporarily restricted net assets, which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets, 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.

Net investment income on permanently restricted endowment accounts is included in temporarily restricted net assets unless the endowment requires it to be added to the endowment balance.

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 revenue of the temporarily restricted net asset class. The temporary restriction is considered released upon acquisition of the asset.

Net assets were 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. In 2013, the University released $2,300 in restricted assets ($479 for instruction, $895 for administrative and general and $926 for auxiliary enterprises). In 2012, the University released $1,138 in restricted assets ($139 for instruction, $103 for administrative and general and $896 for auxiliary enterprises).

2. Summary of Significant Accounting Policies (continued)

Measure of Operations

The change in unrestricted net assets from operations excludes certain activity related to unrestricted net assets. Amounts not included in the measure of operations include investment return in excess of or deficient from amounts designated for current operations and changes in the net unrealized loss on interest rate swap agreements, postretirement benefit obligation, loss on bond defeasement, and 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 spending draw plus amounts designated for certain expenses, including interest on indebtedness and accrued postretirement benefits.

Ohio state law allows the Board of Trustees to appropriate a portion of the net appreciation on endowment accounts as is prudent considering the University's present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The endowment spending draw is based on a spending rate established by the University's Board of Trustees. This rate represents the expected long-term return on endowment investments less an allowance for inflation.

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 $1,261 in 2013 and $1,238 in 2012. 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 $315 and $312 in 2013 and 2012, respectively.

The University entered into 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. In fiscal year 2013, the University recognized government contract revenue of $138 from this entity.

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.

Grants and Contracts

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, and any amounts received in advance are reflected as deferred income.

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) 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.

(All Dollar Amounts in Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable, Net

Accounts receivable consist of the following as of June 30:

	2013	2012
Amounts due from students for tuition and other costs	**$ 7,927**	$ 6,307
Grants and contracts	**33,356**	27,170
Other	**3,849**	4,126
	45,132	37,603
Less: allowance for doubtful accounts	**(2,894)**	(2,509)
Total accounts receivable, net	**$ 42,238**	$ 35,094

The allowance for doubtful accounts for tuition and fees is determined based on management's assessment of historical and net collections considering historical business and economic conditions. Amounts are recorded at estimated net realizable value.

Notes Receivable, Net

Notes receivable consist of the following as of June 30:

	2013	2012
Related to:		
Brown and Caldwell Street Apartments	**$ –**	$ 29,221
Office & Research Facility *(Note 15)*	**27,315**	27,315
Student Loans under government loan programs	**16,596**	17,462
	43,911	73,998
Less: allowance for doubtful accounts for student loans	**(2,147)**	(1,811)
Total notes receivable, net	**$ 41,764**	$ 72,187

The loans are stated at net realizable value.

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

The University invests its endowed funds and other funds in a variety of marketable 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.

Investment in limited partnerships, private equity, hedge funds, and real estate partnerships, do not have readily determinable fair values, and are carried at estimated fair value provided by the management of these funds. Such fair value estimates are based upon a variety of factors, including original costs, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent transaction. In management's opinion, the stated values approximate fair value as determined by the respective managers. Due to the inherent uncertainty of valuation, the estimated values may differ from values that would have been used had a readily available market value for the investments existed, and such differences may be material.

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

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

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 generally charged to expense in the year incurred.

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. These funds may be re-loaned after collections. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying consolidated statements of financial position.

Income Taxes

The University has been 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 by reason of being described in 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 River Park Community Corp. 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 Corp. 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 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, 2013 or 2012.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, gains, and other support and expenditures during the reporting period. The actual results could differ from these estimates.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

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

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

- Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities
- Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals
- Level 3 – inputs are unobservable inputs 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.

See Note 10 for further discussion of fair value measurements.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in the U.S. GAAP and IFRS*. ASU 2011-04 requires reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between the unobservable inputs. In addition, ASU 2011-04 requires reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The adoption of this pronouncement did not have a material impact on the consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-05, *Not-for-Profit (NFP) Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU is required for annual reporting periods beginning on or after June 15, 2013. ASU No. 2012-05 requires an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. Management is currently evaluating the impact this update may have on the University's financial statements and disclosures.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 requires disclosures to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under the International Financial Reporting Standards. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the Statement of

2. Summary of Significant Accounting Policies (continued)

Assets and Liabilities as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, ASU No. 2011-11 requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This update limits the scope of the ASU No. 2011-11 to derivatives, repurchase agreements, reverse repurchase agreements, securities borrowing, and securities lending transactions that are either offset in the Statement of Assets and Liabilities or are subject to an enforceable master netting arrangement or similar agreement. New disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Management is currently evaluating the impact these updates may have on the University's financial statements and disclosures.

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statement presentation to conform to 2013 presentation. Such reclassifications had no effect on the previously stated change in net assets.

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% in the case of securities of United States issuers, and 105% in the case of securities of non-United States issuers of the market value of the loaned securities. 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.

3. Securities Lending Program (continued)

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

At June 30, 2013, securities on loan totaled $11,222 for which a total amount of $11,539 of collateral was posted by the borrowers; the market value of the cash collateral held was $7,791. At June 30, 2012, securities on loan totaled $8,463 for which a total amount of $8,700 of collateral was posted by the borrowers; the market value of the cash collateral held was $6,659. As a result of the changes in the fair value of the invested cash collateral at June 30, 2013 and 2012, the University recorded gains of approximately $284 and $68 respectively. The results of changes in the fair value of invested collateral are included in investment gain in excess of amounts designated for current operations on the consolidated statement of activities. These amounts are treated as noncash items for purposes of recording cash flows. The market value of noncash collateral at June 30, 2013 and 2012 was $3,344 and $1,435 respectively.

4. Pledges Receivable

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 at fair value through a discounted cash flow approach. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restriction that limit the use of the donated assets are reported as either temporary or permanently restricted support until the donor restriction expires. Most unconditional promises are designated for scholarships and general operating purposes. An allowance is recorded for amounts deemed uncollectible.

(All Dollar Amounts in Thousands)

4. Pledges Receivable (continued)

Outstanding pledges receivable, which are discounted at 1.7% and 1.0% as of June 30, 2013 and 2012, respectively, are as follows:

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	**$ 6,282**	**$ 1,291**	**$ 2,724**	**$ 10,297**
One to five years	**5,201**	**1,677**	**2,739**	**9,617**
More than five years	**124**	**65**	**2,303**	**2,492**
	$ 11,607	**$ 3,033**	**$ 7,766**	**$ 22,406**

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 5,298	$ 1,448	$ 4,225	$ 10,971
One to five years	6,064	2,569	2,908	11,541
More than five years	1,070	59	1,658	2,787
	$ 12,432	$ 4,076	$ 8,791	$ 25,299

Management has recorded an allowance for uncollectible pledges of $1,120 at June 30, 2013, and $1,265 at June 30, 2012.

In conjunction with the University's fundraising campaigns, the University incurred fundraising expenses of $7,658 and $6,798 as of June 30, 2013 and 2012, respectively.

(All Dollar Amounts in Thousands)

5. Investments

The cost of investments and carrying value is reflected in the following schedule:

	June 30, 2013		June 30, 2012	
	Carrying Value	Cost	Carrying Value	Cost
Cash and cash equivalents	**$ 134,016**	**$ 134,502**	$ 8,358	$ 8,924
Equity securities:				
Large cap	**68,262**	**55,030**	85,132	78,677
Small cap	**45,099**	**34,424**	40,025	35,117
Other equity	**10,683**	**11,232**	11,092	11,985
Total equity securities	**124,044**	**100,686**	136,249	125,779
Equity mutual funds and comingled funds:				
Large cap	**21,679**	**18,925**	32,071	32,895
International core	**28,242**	**24,890**	38,444	39,397
Emerging markets	**29,104**	**35,283**	35,172	42,983
Other equity	**51,906**	**50,707**	4,504	2,637
Total equity mutual funds	**130,931**	**129,805**	110,191	117,912
U.S. government	–	–	27,111	27,110
Bonds – municipal	–	–	544	432
Bond mutual funds and pooled fixed income accounts	**99,101**	**99,208**	112,341	105,884
Real estate holdings and limited partnerships	**41,742**	**47,233**	47,470	55,767
Private equity and hedge funds	**112,404**	**98,632**	153,844	145,201
Guaranteed investment contracts	**662**	**662**	566	566
Total	**$ 642,900**	**$ 610,728**	$ 596,674	$ 587,575

5. Investments (continued)

Approximately $599,280 and $550,350 of the carrying value of investments as of June 30, 2013 and 2012, respectively, is invested in the University's Long-Term Investment Pool. This pool invests the University's endowment funds as well as other long-term investments. The remainder of the investments are not readily converted into cash and cash equivalents and include real estate holdings, life income gifts, restricted endowment funds, and bond proceeds.

Some of the alternative investments, including the real estate holdings, limited partnerships, hedge funds and private equity, have time restrictions on liquidation. 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 its Long-Term Investment Pool to cash. Funds that have restrictions on liquidity in excess of one year are approximately $83,300 and $84,754 as of June 30, 2013 and 2012, respectively, and on average 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 will occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.

At June 30, 2013, the University has committed capital, which has yet to be called, of approximately $4,652 and $27,626 to real estate holdings and private equity funds, respectively.

The University incurred investment-related expenses, such as custodial fees and investment advisory fees, of $2,542 and $2,564 in 2013 and 2012, respectively.

(All Dollar Amounts in Thousands)

5. Investments (continued)

The following schedules summarize the investment return and its classification in the consolidated statements of activities:

	Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 11,672	$ 345	$ 487	$ 12,504
Net realized and unrealized losses	55,614	1,222	(32)	56,804
Gross return on investments	67,286	1,567	455	69,308
Investment return designated for annuity obligations	–	(1,165)	–	(1,165)
Total return on investments	67,286	402	455	68,143
Investment return designated for current operations	(27,843)	–	–	(27,843)
Investment gain in excess of amounts designated for current operations	$ 39,443	$ 402	$ 455	$ 40,300

(All Dollar Amounts in Thousands)

5. Investments (continued)

	Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 8,894	$ 219	$ 488	$ 9,601
Net realized and unrealized (losses)	(18,208)	(620)	(29)	(18,857)
Gross(loss)return on investments	(9,314)	(401)	459	(9,256)
Investment return designated for annuity obligations	–	(1,234)	–	(1,234)
Total (loss) return on investments	(9,314)	(1,635)	459	(10,490)
Investment return designated for current operations	(26,983)	–	–	(26,983)
Investment (loss) in excess of amounts designated for current operations	$ (36,297)	$ (1,635)	$ 459	$ (37,473)

6. Land, Buildings, and Equipment

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

	2013	2012
Buildings	**$ 523,474**	$ 473,007
Equipment	**131,536**	125,480
Land and land improvements	**85,673**	76,997
Library books	**63,810**	60,959
Renovations-in-progress	**72,934**	38,538
	877,427	774,981
Accumulated depreciation	**(313,634)**	(292,646)
	$ 563,793	$ 482,335

(All Dollar Amounts in Thousands)

6. Land, Buildings, and Equipment (continued)

Depreciation expense was $24,259 and $22,390 in 2013 and 2012, respectively.

7. Retirement Plans

The University sponsors a defined contribution plan. Retirement benefits are provided for the employees through Teachers Insurance and Annuity Association (TIAA), a national organization used to fund retirement benefits for educational institutions. The University purchases individual retirement annuities through TIAA to fund retirement benefits. The cost to fund these benefits was $9,955 in 2013 and $9,374 in 2012.

The University also provides health care benefits for retired employees under a health and welfare plan (the Plan). Faculty and staff are eligible for the Plan if, while in service with the University, they have either worked 20 years and attained age 55 or worked 10 years and attained age 60. The Plan is contributory and contains other cost-sharing features, such as deductibles and coinsurance. Contributions by plan participants were $1,148 in 2013 and $1,122 in 2012.

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

	2013	2012
Service cost of benefits earned	**$ 1,693**	$ 1,284
Interest cost on liability	**2,843**	3,295
Amortization of prior service cost	**(118)**	(118)
Amortization of net loss	**702**	–
Net periodic postretirement benefit cost	**$ 5,120**	$ 4,461

(All Dollar Amounts in Thousands)

7. Retirement Plans (continued)

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:

	2013	2012
Change in projected benefit obligations		
Projected benefit obligation, beginning of year	**$ 78,523**	$ 63,632
Service cost	**1,692**	1,284
Interest cost	**2,845**	3,295
Actuarial (gain) loss	**(8,223)**	12,744
Benefits paid	**(3,056)**	(2,432)
Projected benefit obligation, end of year	**71,781**	78,523
Change in fair value of plan assets		
Fair value of plan assets, beginning of year	–	–
Employer contributions	**3,056**	2,432
Benefits paid	**(3,056)**	(2,432)
Fair value of plan assets, end of year	–	–
Net liability on the statements of financial position	**$ 71,781**	$ 78,523

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

	2013	2012
Actuarial (loss) gain	**$ 8,223**	$ (12,744)
Prior service cost	**(118)**	(118)
Amortization of net loss	**702**	–
	$ 8,807	$ (12,862)

(All Dollar Amounts in Thousands)

7. Retirement Plans (continued)

Included in unrestricted net assets are $236 and $354 of unrecognized prior service cost at June 30, 2013 and 2012, respectively, that have not yet been recognized in the net periodic benefit cost. There are also unrecognized actuarial losses of $7,084 and $16,008 included in unrestricted net assets at June 30, 2013 and 2012, respectively, which have not yet been recognized in the net periodic benefit cost. The net actuarial (loss) gain and prior service cost expected to be recognized during the year ended June 30, 2014, are $0 and $118, respectively.

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

	2013	**2012**
Weighted-average discount rate used to determine the projected benefit obligation	**4.35%**	3.70%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	**3.70%**	5.30%

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 Centers for Medicare and Medicaid Services through 2017 and the University's actuaries' for the years thereafter. The model does not specifically include an administrative cost trend. Rather, that is incorporated with the medical assumptions.

(All Dollar Amounts in Thousands)

7. Retirement Plans (continued)

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:

	2013	**2012**
Initial year trend:		
Combined trend pre-Medicare	**7.50%**	7.60%
Combined trend post-Medicare	**7.40%**	7.50%
Combined ultimate trend for pre-1994 and grandfathered retirees:		
Pre-Medicare	**4.50%**	4.50%
Post-Medicare	**4.50%**	4.50%
Combined ultimate trend for non-grandfathered participants and post-1994 retirees:		
Pre-Medicare	**4.50%**	4.50%
Post-Medicare	**No Trend**	No Trend
Year that rates reach the ultimate trend rate	**2028**	2028

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, 2013 and the net periodic benefit cost:

	1.0% Increase	**1.0% Decrease**
Effect on postretirement benefit obligation	$ 6,728	$ (5,861)
Effect on net periodic benefit cost	494	(424)

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

Year:	
2014	$ 3,500
2015	3,943
2016	4,348
2017	4,632
2018	4,908
2019–2023	27,706

The University plans to contribute $3,500 to the Plan in 2014.

(All Dollar Amounts in Thousands)

8. Indebtedness

The University finances the construction, renovation, and acquisition of certain facilities through the issuance of debt obligations which may include mortgage bonds, bank loans and other borrowings. Total indebtedness for the years ended June 30 was as follows:

	2013	2012
Notes and Term Loan		
Note Payable	**$ 8,229**	$ 10,286
111 River Park, LLC – Notes Payable	**35,996**	35,996
Term Loan	**27,315**	27,315
Other Various Notes	**315**	357
Revenue Bonds – Fixed Rate		
2000, due serially through 2012	–	450
2004, due serially through 2034	**7,795**	35,950
2009, due serially through 2036	**68,970**	70,430
2011A, due serially through 2041	**27,310**	30,065
2013, due serially through 2043	**57,510**	–
Revenue Bonds – Variable Rate		
2003, due serially through 2033	**43,350**	46,375
2006, due serially through 2036	**67,580**	68,830
2011B, due in total in 2016	**28,000**	28,000
Net Premium	**8,596**	1,345
	$ 380,966	$ 355,399

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 $341,000) 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 outstanding bonds do not require mandatory reserves for future payments of principal and interest. However, the University has set aside $51,224 of its unrestricted net assets to for future debt service.

(All Dollar Amounts in Thousands)

8. Indebtedness (continued)

Debt obligations are generally callable by the University, bear interest at fixed and variable rates ranging from 2.00% to 5.75%, and mature at various dates through 2043. Maturities and interest on debt obligations for the next five years and thereafter are:

	Principal	Interest	Total
2014	$ 13,183	$ 16,379	$ 29,562
2015	13,478	15,865	29,343
2016	28,362	15,313	43,675
2017	29,752	14,111	43,863
2018	14,888	13,709	28,597
2019 and thereafter	281,303	144,236	425,539
Total	$ 380,966	$ 219,613	$ 600,579

Interest expense was $15,158 for 2013 and $15,136 for 2012. Cash paid for interest was $15,591 for 2013 and $15,451 for 2012.

With the issuance of the 2013 Revenue Bonds, the University defeased the callable portion of the 2004 Revenue Bonds. The University removed $27,430 in bond principal, $391 in premium and recognized a loss on defeasance of $2,221.

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 above table of debt service payments includes the fixed rate interest required to be paid under the terms of these swap agreements.

The University maintains revolving credit agreements with two banks totaling $40,000. The agreements, which are $20,000 each, are due to expire on June 25, 2014 and December 31, 2014. At June 30, 2012, the University had drawn $15,000 on these lines of credit to help fund the completion of certain construction projects. As of June 30, 2012, the amount due on the line of credit was recorded in the consolidated statement of financial position as short-term notes payable. During fiscal year 2013, the University drew an additional $25,000 on the lines of credit. All amounts outstanding were repaid in full by June 30, 2013.

8. Indebtedness (continued)

As of June 30, 2013, the University had met all of the covenants required under its bond indentures and bank loans.

During 2006, the University invested in two real estate partnerships. As part of these investments, the University guaranteed a portion of third-party loans to the partnerships in the amount of $18,295. The University guarantees coincide with the terms of the loans, which mature on June 30, 2015. The University has a two year agreement to lease property in one of the partnerships with a minimum payout of approximately $500 per year.

9. Interest Rate Swap Agreements

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

In August 2006, the University entered into an interest rate swap agreement with a notional amount of $25,995. 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 December 1, 2015 through December 1, 2023. The fair value of this agreement as of June 30, 2013 and 2012 is recorded as a liability of $2,031 and $1,904, respectively and is included in other liabilities in the accompanying consolidated statements of financial position.

9. Interest Rate Swap Agreements (continued)

Also in August 2006, the University entered into an interest rate swap agreement with a notional amount of $22,350. This agreement effectively fixed the interest rate 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, 2013 and 2012 is recorded as a liability of $1,464 and $1,422, respectively and is included in other liabilities 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 3.99% through December 1, 2032. In 2009, these bonds were retired. The fair value of this agreement as of June 30, 2013 and 2012 is recorded as a liability of $4,817 and $7,910, respectively, and are included in other liabilities in the accompanying consolidated statements of financial position.

In October 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 variable rate term loan at 5.16% through October 1, 2021. This term loan agreement is in connection with the financing of a construction project. The fair value of this agreement as of June 30, 2013 and 2012 is recorded as a liability of $2,780 and $6,277, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position.

10. 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 government bonds, mortgage and asset-backed securities, and bonds (corporate/sovereign credits and municipal) 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. In addition, some pooled accounts and collective trusts are not actively traded in open markets and are also included in this category. Following is the summary of the inputs and valuation techniques used as of June 30, 2013 and 2012 for valuing Level 2 investments:

Investments	Input	Valuation Technique
U.S. government bonds	Broker/Dealer	Market
Agency obligations	Broker/Dealer	Market
Mortgage-backed and asset-backed securities	Broker/Dealer	Market
Bonds-corporate/sovereign credits and municipal	Broker/Dealer	Market

The University also holds investments in various limited partnerships, hedge funds, real estate investment trusts, and other private instruments. These investments are treated as Level 3 in the fair value hierarchy. The University records its positions in these investments at their reported net asset value, which represents fair value as reported by the general partner or fund manager. These investment vehicles may hold publicly traded securities as well as other assets that do not have readily determinable market prices. Investments held in publicly traded securities are generally valued at quoted market prices. Investments without readily determinable quoted market prices in active markets are valued based on estimates by partnership managers and various valuation committees, and such valuation estimates consider cost data, restrictions effecting marketability, operating results, financial condition of the underlying portfolio company, and the price of most recent financing transactions. In management's opinion, the stated values approximate fair values determined by respective managers. 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.

(All Dollar Amounts in Thousands)

10. Fair Value of Financial Instruments (continued)

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

	Fair Value Measurements at June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	**$ 10,631**	**$ 123,385**	**$ –**	**$ 134,016**
Equity securities	**124,044**	**–**	**–**	**124,044**
Equity mutual funds and comingled funds	**85,323**	**45,608**	**–**	**130,931**
Bond mutual funds and pooled fixed income accounts	**99,101**	**–**	**–**	**99,101**
Real estate recorded under equity method	**–**	**–**	**4,394**	**4,394**
Real estate holdings and limited partnerships	**–**	**–**	**37,348**	**37,348**
Investments in private equity and hedge funds	**–**	**–**	**112,404**	**112,404**
Guaranteed investment contracts	**–**	**–**	**662**	**662**
Collateral held for securities lending agreement	**–**	**7,791**	**–**	**7,791**
Total assets at fair value	**$ 319,099**	**$ 176,784**	**$ 154,808**	**$ 650,691**
Liabilities				
Other liabilities – interest rate swap liability	**$ –**	**$ –**	**$ 11,092**	**$ 11,092**
Total liabilities at fair value	**$ –**	**$ –**	**$ 11,092**	**$ 11,092**

(All Dollar Amounts in Thousands)

10. Fair Value of Financial Instruments (continued)

	Fair Value Measurements at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 975	$ 7,383	$ –	$ 8,358
Equity securities	136,249	–	–	136,249
Equity mutual funds and comingled funds	41,710	67,336	1,145	110,191
U.S. government	–	27,111	–	27,111
Bonds – municipal	–	544	–	544
Bond mutual funds and pooled fixed income accounts	112,341	–	–	112,341
Real estate recorded under equity method	–	–	5,312	5,312
Real estate holdings and limited partnerships	–	–	42,158	42,158
Investments in private equity and hedge funds	–	–	153,844	153,844
Guaranteed investment contracts	–	–	566	566
Collateral held for securities lending agreement	–	6,659	–	6,659
Total assets at fair value	$ 291,275	$ 109,033	$ 203,025	$ 603,333
Liabilities				
Other liabilities – interest rate swap liability	$ –	$ –	$ 17,513	$ 17,513
Total liabilities at fair value	$ –	$ –	$ 17,513	$ 17,513

(All Dollar Amounts in Thousands)

10. Fair Value of Financial Instruments (continued)

Various real estate investments held for future development are recorded at cost as of June 30, 2013 and 2012.

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:

	Real Estate Holdings	Private Equity and Hedge Funds	Equity Mutual Funds	Guaranteed Investment Contract	Total
Opening Balance at July 1, 2012	$ 42,158	$ 153,844	$ 1,145	$ 566	$ 197,713
Transfers out of Level 3	–	–	(1,050)	–	(1,050)
Total gains or losses for the period included in earnings (or changes in net assets)	5,525	14,221	–	–	19,746
Purchases, issues, sales and settlements:					
Purchase	1,449	29,123	–	96	30,668
Sales	(11,784)	(84,784)	(95)	–	(96,663)
Closing Balance at June 30, 2013	$ 37,348	$ 112,404	$ –	$ 662	$ 150,414
Changes in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$ 2,805	$ 5,129	$ –	$ –	$ 7,934

(All Dollar Amounts in Thousands)

10. Fair Value of Financial Instruments (continued)

	Real Estate Holdings	Private Equity and Hedge Funds	Equity Mutual Funds	Guaranteed Investment Contract	Total
Opening Balance at July 1, 2011	$ 29,310	$ 162,027	$ 1,097	$ 453	$ 192,887
Transfers out of Level 3	–	(19,943)	–	–	(19,943)
Total gains or losses for the period included in earnings (or changes in net assets)	3,677	1,003	–	–	4,680
Purchases, issues, sales and settlements:					
Purchase	38,900	59,652	48	113	98,713
Sales	(29,729)	(48,895)	–	–	(78,624)
Closing Balance at June 30, 2012	$ 42,158	$ 153,844	$ 1,145	$ 566	$ 197,713
Changes in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$ 3,214	$ 370	$ –	$ –	$ 3,584

Various securities totaling $1,050 and $19,943 were transferred out of Level 3 based on the availability of observable inputs on those securities during 2013 and 2012, respectively. There were no other significant transfers in and out of Level 1, 2 or 3 during the period ending June 30, 2013 or 2012.

10. Fair Value of Financial Instruments (continued)

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

	2013	2012
Balance, beginning of year	**$ 17,513**	$ 4,645
New swap purchase	**–**	6,277
Market value change	**(6,421)**	6,591
Balance, end of year	**$ 11,092**	$ 17,513

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, which consists primarily of bonds payable, is approximately $410,078 as of June 30, 2013 and was estimated using discounted cash flows.

(All Dollar Amounts in Thousands)

11. Nature and Amount of Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	June 30	
	2013	**2012**
Instruction	**$ 17,092**	$ 16,101
Administrative and general	**2,464**	2,978
Organized research	**63**	76
Libraries	**3,713**	3,420
Student aid	**37,897**	36,475
Auxiliary enterprises	**2,954**	3,650
	$ 64,183	$ 62,700

Permanently restricted net assets are restricted for the following purposes:

	June 30	
	2013	**2012**
Instruction	**$ 53,722**	$ 52,240
Administrative and general	**10,398**	10,385
Organized research	**2,575**	2,664
Libraries	**4,322**	4,257
Student aid	**71,592**	69,011
Auxiliary enterprises	**947**	945
	$ 143,556	$ 139,502

12. 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.

12. Endowment Funds (continued)

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requiring 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. Absent donor stipulations, the Board may appropriate for expenditure, for the uses and purposes of the endowment fund, the net appreciation, realized and unrealized, in the fair value of the assets of the endowment established by UPMIFA.

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 $3,792 and $7,741 recorded as of June 30, 2013 and 2012, 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 its endowment spending. Part of the spending is based on the prior year's spend plus an inflationary factor. The remaining portion of the spending is calculated by taking a return on the average of the previous 20 quarters market value. The amount distributed is bound by a floor of 3.5% and a ceiling of 5.5% of the endowment funds previous December 31st fair value. In establishing this policy, the University considered the long-term expected return on its endowment.

(All Dollar Amounts in Thousands)

12. Endowment Funds (continued)

The University has the following endowment-related activities:

	Changes in Endowment Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2012	$ 215,707	$ 52,368	$ 139,283	$ 407,358
Investment return:				
Investment income	5,769	2,733	487	8,989
Net appreciation (depreciation) (realized and unrealized)	31,323	4,882	(32)	36,173
Contributions	265	–	3,600	3,865
Other (additions and deletions to endowment)	5,129	3,827	–	8,956
Appropriation of endowment assets for expenditure	(7,113)	(7,616)	–	(14,729)
Endowment net assets at June 30, 2013	$ 251,080	$ 56,194	$ 143,338	$ 450,612

(All Dollar Amounts in Thousands)

12. Endowment Funds (continued)

	Changes in Endowment Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2011	$ 234,338	$ 55,596	$ 133,485	$ 423,419
Investment return (loss):				
Investment income	4,682	1,833	488	7,003
Net appreciation (realized and unrealized)	(19,970)	5,432	(29)	(14,567)
Contributions	507	–	5,339	5,846
Other (additions and deletions to endowment)	2,822	(3,229)	–	(407)
Appropriation of endowment assets for expenditure	(6,672)	(7,264)	–	(13,936)
Endowment net assets at June 30, 2012	$ 215,707	$ 52,368	$ 139,283	$ 407,358

13. Private Gifts, Grants, and Other

Private gifts, grants, and other include the following:

	Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gifts	**$ 8,976**	**$ 506**	**$ 3,620**	**$ 13,102**
Private research contracts	**13,882**	**–**	**–**	**13,882**
Sponsored projects	**14,228**	**–**	**–**	**14,228**
Miscellaneous income	**8,402**	**–**	**–**	**8,402**
Transfers between restrictions	**415**	**–**	**(415)**	**–**
	$ 45,903	**$ 506**	**$ 3,205**	**$ 49,614**

(All Dollar Amounts in Thousands)

13. Private Gifts, Grants and Other (continued)

	Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gifts	$ 9,017	$ 1,532	$ 4,307	$ 14,856
Private research contracts	11,563	–	–	11,563
Sponsored projects	12,594	–	–	12,594
Miscellaneous income	8,333	–	–	8,333
Transfers between restrictions	(868)	(164)	1,032	–
	$ 40,639	$ 1,368	$ 5,339	$ 47,346

14. Functional Classification of Expenses

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

	Year Ended June 30	
	2013	**2012**
Instruction	**$ 132,374**	$ 126,975
Administrative and general	**66,230**	58,411
Libraries	**11,852**	11,149
Sponsored academic projects	**14,423**	13,531
Organized research	**83,851**	82,560
Auxiliary Enterprises	**91,743**	84,969
	$ 400,473	$ 377,595

(All Dollar Amounts in Thousands)

15. Consolidated Entities

Office and Research Facility

During 2012, the University and certain affiliated entities entered into a new market tax credit financing transaction to finance the construction of an office and research facility adjacent to its campus. In conjunction with this transaction, an affiliate of the University entered into an agreement to lease this facility to a multinational corporation for fifteen years, plus renewal options. The estimated cost of the project is $53 million.

Under the terms of this new market tax credit financing, the University borrowed $27,315 under a term note agreement with a bank. The term loan bears interest at LIBOR plus 1.25% and expires on October 4, 2021. The loan requires only monthly interest payments through October 31, 2016. Beginning on November 1, 2016, the University is required to make quarterly payments of principal and interest through maturity.

The University loaned $27,315 to an unrelated investment fund. The investment provided funding to four unrelated community development entities (CDEs) which, in turn, provided debt financing to a qualified active low income community business (QALICB) controlled by the University that will construct, own and lease the facility. In addition, the University agreed to provide up to $17,029 of direct financing to the project, through a combination of direct loans or equity contributions to the QALICB. The University has guaranteed that the QALICB will meet its debt and other obligations to the CDEs and the investment fund.

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

	2013	2012
Assets:		
Cash	**$ 4,720**	$ 22,492
Note receivable from investment fund	**$ 27,315**	$ 7,315
Construction in process	**$ 45,743**	$ 13,032
Liabilities:		
Term loan payable to bank	**$ 27,315**	$ 27,315
Loans payable to the CDEs	**$ 35,996**	$ 35,996

15. Consolidated Entities (continued)

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

Construction was substantially completed in July 2013. The tenant moved into the facility and rent commenced on August 1, 2013.

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

University of Dayton China Institute

In August 2012, the University opened a wholly owned foreign enterprise in China. The University of Dayton China Institute (UDCI) was established to provide research facilities for University faculty and students and educational and training opportunities for companies in the Suzhou Industrial Park, where the center is located. During the year ended June 30, 2013 the University recognized income of $68 and expenditures of $179 from this enterprise.

16. Subsequent Events

The University has evaluated and disclosed any subsequent events through October 7, 2013, which is the date the financial statements were issued and made available.

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