Ohio Northern University

Auditor's Report and Consolidated Financial Statements

May 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Ohio Northern University
May 31, 2014 and 2013

Contents

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CPAs & Advisors

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Independent Auditor's Report on Consolidated Financial Statements

Board of Trustees
Ohio Northern University
Ada, Ohio

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ohio Northern University (University) and its subsidiaries, which comprise the consolidated statements of financial position as of May 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 University'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 University'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 financial position of Ohio Northern University and its subsidiaries as of May 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Fort Wayne, Indiana
October 6, 2014

Ohio Northern University

Consolidated Statements of Financial Position
May 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	$ 12,563,064	$ 21,473,887
Student accounts receivable, net of allowance of $968,484 in 2014 and $200,313 in 2013	2,092,319	1,911,239
Contributions receivable, net of allowance of $61,000 in 2014 and $61,000 in 2013	783,686	766,105
Other receivables	1,998,835	1,626,766
Cash equivalents and investments restricted for loans and long-lived asset purchases	2,960,163	3,232,483
Inventories	382,014	461,109
Prepaid expenses	1,417,488	1,264,332
Investments	175,100,579	157,143,003
Notes receivable, net of allowance of $20,706 in 2014 and $430,850 in 2013	12,208,654	12,464,801
Assets held in charitable remainder trusts	1,931,997	1,927,068
Bond origination costs	1,028,430	752,818
Property and equipment	141,451,047	144,629,866
Cash value of life insurance	590,831	421,663
Beneficial interest in remainder trusts	4,448,561	4,227,703
Beneficial interest in perpetual trusts	7,871,376	7,609,780
Total assets	$ 366,829,044	$ 359,912,623
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 2,925,660	$ 3,789,731
Accrued expenses	8,879,700	10,747,193
Deferred revenue and deposits	3,832,230	3,512,205
Interest rate swap agreements	—	5,410,934
Bonds payable	66,242,984	65,154,421
Annuities and trusts payable	3,477,338	3,668,135
Postretirement medical benefits	24,105,702	22,279,239
Other	1,075,416	1,135,241
U.S. Government refundable advances	10,749,757	10,637,706
Total liabilities	121,288,787	126,334,805
Net Assets		
Unrestricted	47,798,410	52,558,735
Temporarily restricted	97,360,032	83,613,544
Permanently restricted	100,381,815	97,405,539
Total net assets	245,540,257	233,577,818
Total liabilities and net assets	$ 366,829,044	$ 359,912,623

Ohio Northern University

Consolidated Statement of Activities
Year Ended May 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Tuition and fees	$ 120,670,365	$ —	$ —	$ 120,670,365
Less scholarships and aid	(63,802,058)	—	—	(63,802,058)
Net tuition and fees	56,868,307	—	—	56,868,307
Gifts and bequests	1,640,938	748,951	—	2,389,889
Grants and contracts	2,194,959	168,869	—	2,363,828
Investment return designated for operations	4,701,773	1,356,371	—	6,058,144
Investment income from trusts held by others	379,219	—	—	379,219
Other investment income	97,525	—	—	97,525
Other	918,966	—	—	918,966
Auxiliary enterprises	20,542,482	—	—	20,542,482
Net assets released from restrictions for operating items	1,444,536	(1,444,536)	—	—
Total revenue, gains and other support	88,788,705	829,655	—	89,618,360
Expenses				
Instruction	41,912,790	—	—	41,912,790
Sponsored programs	1,390,480	—	—	1,390,480
Academic support	2,940,722	—	—	2,940,722
Libraries	3,495,952	—	—	3,495,952
Student services	12,009,193	—	—	12,009,193
Auxiliary	20,065,733	—	—	20,065,733
Total educational activities	81,814,870	—	—	81,814,870
Institutional support	9,956,305	—	—	9,956,305
Fundraising	1,522,256	—	—	1,522,256
Total expenses	93,293,431	—	—	93,293,431
Change in Net Assets Before Other Revenue (Expenses)	(4,504,726)	829,655	—	(3,675,071)
Other Revenues (Expenses)				
The Inn remediation	237,405	—	—	237,405
Gifts restricted for endowment	1,735	5,450	2,421,453	2,428,638
Gifts restricted for acquisition of long-lived assets	—	2,403,018	—	2,403,018
Investment return less amounts designated for operations	43,635	11,554,421	—	11,598,056
Change in value of split-interest agreements	(3,585)	355,800	(11,701)	340,514
Actuarial adjustment to postretirement medical benefit liability	(2,799,965)	—	—	(2,799,965)
Change in fair value of interest rate swap	1,791,934	—	—	1,791,934
Amortization of bond origination costs	(24,403)	—	—	(24,403)
Loss on extinguishment of debt	(599,282)	—	—	(599,282)
Change in beneficial interest in perpetual trusts	—	—	261,595	261,595
Transfer to restore prior losses on temporarily restricted endowment assets	1,756,364	(1,756,364)	—	—
Satisfaction of capital acquisition restrictions	2,622,070	(2,622,070)	—	—
Total other revenue (expenses)	3,025,908	9,940,255	2,671,347	15,637,510
Change in Net Assets Before Effect of Reclassification of Net Assets	(1,478,818)	10,769,910	2,671,347	11,962,439
Reclassification of Net Assets	(3,281,507)	2,976,578	304,929	—
Change in Net Assets	(4,760,325)	13,746,488	2,976,276	11,962,439
Net Assets, Beginning of Year	52,558,735	83,613,544	97,405,539	233,577,818
Net Assets, End of Year	$ 47,798,410	$ 97,360,032	$ 100,381,815	$ 245,540,257

Ohio Northern University
Consolidated Statement of Activities
Year Ended May 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Tuition and fees	$ 118,396,500	$ —	$ —	$ 118,396,500
Less scholarships and aid	(60,500,052)	—	—	(60,500,052)
Net tuition and fees	57,896,448	—	—	57,896,448
Gifts and bequests	1,285,891	1,326,511	—	2,612,402
Grants and contracts	2,039,023	195,517	—	2,234,540
Investment return designated for operations	6,376,166	—	—	6,376,166
Investment income from trusts held by others	26,663	—	—	26,663
Other investment income	98,515	—	—	98,515
Other	1,367,707	—	—	1,367,707
Auxiliary enterprises	21,182,360	—	—	21,182,360
Net assets released from restrictions for operating items	2,755,370	(2,755,370)	—	—
Total revenue, gains and other support	93,028,143	(1,233,342)	—	91,794,801
Expenses				
Instruction	43,630,249	—	—	43,630,249
Sponsored programs	1,470,240	—	—	1,470,240
Academic support	3,116,944	—	—	3,116,944
Libraries	3,614,495	—	—	3,614,495
Student services	10,759,020	—	—	10,759,020
Auxiliary	21,708,313	—	—	21,708,313
Total educational activities	84,299,261	—	—	84,299,261
Institutional support	9,726,166	—	—	9,726,166
Fundraising	1,469,311	—	—	1,469,311
Total expenses	95,494,738	—	—	95,494,738
Change in Net Assets Before Other Revenue (Expenses)	(2,466,595)	(1,233,342)	—	(3,699,937)
Other Revenues (Expenses)				
The Inn remediation	(6,100,000)	—	—	(6,100,000)
Gifts restricted for endowment	152	126,955	2,973,195	3,100,302
Claim settlement	400,000	—	—	400,000
Investment return less amounts designated for operations	54,094	15,038,301	—	15,092,395
Change in value of split-interest agreements	(4,419)	351,480	662,256	1,009,317
Actuarial adjustment to postretirement medical benefit liability	9,637,807	—	—	9,637,807
Change in fair value of interest rate swap	1,937,935	—	—	1,937,935
Amortization of bond origination costs	(73,959)	—	—	(73,959)
Change in beneficial interest in perpetual trusts	—	—	875,514	875,514
Transfer to restore prior losses on temporarily restricted endowment assets	2,671,093	(2,671,093)	—	—
Satisfaction of capital acquisition restrictions	429,666	(429,666)	—	—
Total other revenue (expenses)	8,952,369	12,415,977	4,510,965	25,879,311
Change in Net Assets Before Effect of Reclassification of Net Assets	6,485,774	11,182,635	4,510,965	22,179,374
Reclassification of Net Assets	1,250,000	(2,625,314)	1,375,314	—
Change in Net Assets	7,735,774	8,557,321	5,886,279	22,179,374
Net Assets, Beginning of Year	44,822,961	75,056,223	91,519,260	211,398,444
Net Assets, End of Year	$ 52,558,735	$ 83,613,544	$ 97,405,539	$ 233,577,818

Ohio Northern University

Consolidated Statements of Cash Flows
Years Ended May 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	$ 11,962,439	$ 22,179,374
Items not requiring (providing) operating activities cash flows		
Depreciation	7,302,162	7,539,721
Amortization of bond origination costs	24,403	63,959
Increase in bond origination costs due to refinance	(909,297)	—
Expense of bond origination cost due to refinance	609,282	—
Amortization of bond premium	(36,437)	(36,437)
Change in allowance for doubtful accounts	(410,144)	146,163
Net realized and unrealized gains on investments	(13,381,131)	(17,434,631)
Change in fair value of interest rate swap agreements	(1,791,934)	(1,937,935)
Gain on beneficial interest in perpetual trust	(261,596)	(832,934)
Contributions restricted for long-term investment	(2,421,453)	(2,973,195)
Contributions restricted for acquisition of long-lived assets	(2,403,018)	(789,148)
Changes in		
Student accounts receivable	(181,080)	(255,919)
Contributions receivable	(17,581)	1,960,135
Other receivables	(372,069)	(169,886)
Inventories	79,095	(139,118)
Prepaid expenses and other assets	(153,156)	(153,815)
Beneficial interest in remainder trusts	(225,787)	(473,283)
Accounts payable	(1,052,362)	(419,684)
Accrued expenses	(1,867,493)	2,586,873
Deferred revenue and deposits	320,025	(612,362)
Annuities and trusts payable	(190,797)	(42,424)
Postretirement medical benefits	1,826,463	(9,637,807)
Other liabilities	(59,825)	24,423
Net cash used in operating activities	(3,611,291)	(1,407,930)
Investing Activities		
Purchase of property and equipment	(3,935,052)	(2,895,129)
Decrease in notes receivable	666,291	425,566
Purchases of investments	(47,475,954)	(28,559,432)
Proceeds from sales and maturities of investments	42,899,509	31,934,172
(Decrease) increase in cash equivalents and investments restricted for loans and long-lived asset purchases	272,320	(850,454)
Increase in cash value of life insurance	(169,168)	(18,254)
Net cash (used in) provided by in investing activities	(7,742,054)	36,469
Financing Activities		
Principal payments on bonds	(48,750,000)	(3,535,000)
Issuance of new debt	49,875,000	—
Proceeds from contributions restricted for long-term investment	2,421,453	2,973,195
Proceeds from contributions restricted for acquisition of long-lived assets	2,403,018	789,148
Disposition of interest rate swap	(3,619,000)	—
Increase in U.S. Government refundable advances	112,051	207,262
Net cash provided by financing activities	2,442,522	434,605
Net Decrease in Cash and Cash Equivalents	(8,910,823)	(936,856)
Cash and Cash Equivalents, Beginning of Year	21,473,887	22,410,743
Cash and Cash Equivalents, End of Year	$ 12,563,064	$ 21,473,887
Supplemental Cash Flows Information		
Interest paid	$ 2,230,907	$ 3,279,700

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Ohio Northern University (University) is a private, United Methodist Church-related university in Ada, Ohio, comprised of the Colleges of Arts & Sciences, Business Administration, Engineering, Pharmacy and Law. The University draws a large percentage of the undergraduate student body from the state of Ohio, while a large percentage of law students are from outside Ohio. The University's primary sources of revenue and support are tuition income, auxiliary revenue, contributions and investment income.

The Inn at Ohio Northern University Management Company (The Inn) is a wholly-owned subsidiary that furnishes the University the managerial, supervisory, administrative and support services relating to the hotel owned by the University. Under the terms of a management agreement, the Company is reimbursed by the University for all actual and direct expenses incurred in connection with the operation of the hotel.

Polar Enterprises is a not-for-profit corporation that operates an entrepreneurship program that educates students by providing them hands on experience in operating a student-run business.

Principles of Consolidation

The consolidated financial statements include the accounts of Ohio Northern University, The Inn and Polar Enterprises. All significant interorganizational accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2014 and 2013, cash equivalents consisted primarily of money market funds.

At May 31, 2014, the University's cash accounts which are held at multiple financial institutions exceeded federally insured limits by approximately $15,100,000. The University does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

Cash and cash equivalents related to uninvested cash are considered part of investments in the accompanying financial statements.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at fair value. Investment return includes dividend, interest and other investment income; and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowment accounts based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Student Accounts and Notes Receivable

Student accounts receivable are stated at the amount billed to students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the term unless the student has a payment plan. Charges that are past due without payments for three consecutive months, and have had no response to the due diligence process, are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist primarily of amounts due under the Federal Perkins Loan Program and Health Professions Student Loan Program and are stated at their outstanding principal amounts. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student. Loans with a delinquent balance and still accruing interest amounted to approximately $1,178,000 and $1,124,000 at May 31, 2014 and 2013, respectively.

Inventories

Inventories consist primarily of supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. The cost of repairs and maintenance is generally charged to expense in the year incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	30-50 years
Land improvements	40-50 years
Equipment, furniture, fixtures and vehicles	5-10 years

Bond Origination Costs and Debt Premium

Costs incurred in obtaining long-term financing are deferred and amortized over the term of the related borrowing. Premiums related to the University's long-term debt are accreted over the term of the related debt.

Collections

All collections of works of art, historical treasures and similar assets are capitalized. The University received donations of various works of art in past years. The collection includes approximately 400 items and is displayed in several locations on campus. Items added to the collections are capitalized at costs if purchased or at estimated fair value on the acquisition date if donated. Collection items sold or removed are reported as unrestricted or temporarily restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

It is the policy of the University to recognize contributions of works of art as a capitalized asset because the items are held for public exhibition rather than financial gain. However, such works of art are not subject to depreciation. Standard University procedures are used in accessioning, deaccessioning, cataloging and managing objects. The University provides a clean, safe and stable storage environment for its collections. There were no deaccessions in 2014 or 2013.

Deferred Revenue

Deferred revenue consists primarily of student tuition, housing and other fees received prior to the beginning of an academic term.

Net Assets

The University's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted and permanently restricted as follows:

- *Unrestricted Net Assets* – net assets that are not subject to donor-imposed restrictions. The unrestricted net asset class included general and board-designated assets and liabilities of the University and may be used at the discretion of management to support the University's purposes and operations.

- *Temporarily Restricted Net Assets* – net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets.

- *Permanently Restricted Net Assets* – net assets that are subject to donor-imposed restrictions to be maintained in perpetuity by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service. Contributions of cash or other assets to be used to acquire land, building and equipment with donor-imposed use are considered to be released at the time of acquisition of such long-lived assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Government Grants

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Split Interest Agreements

Funds held in trust by others for the benefit of the University are recorded at fair value based on the University's share of the trust.

Irrevocable charitable remainder unitrusts held by others are recorded as a contribution in the year the trust is established. The contribution is recorded at the fair value of the trust assets less the present value of the estimated future cash payments to the beneficiaries.

Income Taxes

The University and Polar Enterprises are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the University and Polar Enterprises are subject to federal income tax on any unrelated business taxable income. The Inn is a for-profit company that furnishes the University the managerial, supervisory, administrative and support services relating to the hotel owned by the University.

The University files tax returns in the U.S. federal jurisdiction. With a few exceptions, the University is no longer subject to U.S. federal, state or local or non-U.S. income tax examinations by tax authorities for years before 2011. Accordingly, no provision for income taxes has been made. The University did engage in activities unrelated to its exempt purpose, but these activities did not result in taxable income. The University had no unrelated business income and incurred no income tax expense in the years ended May 31, 2014 and 2013. The University is also exempt from state income taxes.

Compensated Absences

Full-time employees, excluding faculty, earn 20 days of vacation each year. Effective September 1, 2013, vacation time began to accrue on a per pay basis immediately upon employment. The employee may accumulate a maximum of 40 vacation days. Employees may be paid for unused vacation leave at their current rate of pay upon termination of service. The University accrues costs for vacation leave as obligations of unrestricted net assets. At May 31, 2014 and 2013, the University had an accrual of $792,281 and $640,476, respectively, for unused vacation leave. There is no accrual for sick pay.

Functional Allocation of Expenses

The costs of supporting various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs (primarily depreciation, interest, facilities operations and maintenance, insurance and utilities) have been allocated among the educational, institutional support and fundraising categories based on applicable direct usage of assets, related debt or allocated on a square footage basis.

Note 2: Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	2014	2013
Less than one year	$ 719,080	$ 627,984
Due one to five years	112,785	205,070
Due after five years	21,000	2,877
	852,865	835,931
Less allowance for uncollectible contributions	(61,000)	(61,000)
Less present value discount	(8,179)	(8,826)
	$ 783,686	$ 766,105

Discount rates ranged from .26% to 3.10% and from .26% to 2.99% for 2014 and 2013, respectively.

Note 3: Investments and Investment Return

Investments at May 31 consisted of the following:

	2014	2013
Cash and money market funds	$ 3,024,330	$ 2,642,320
Common stocks	13,220,545	11,902,894
U.S. Government and agency obligations	805,682	796,266
Corporate debt securities	655,739	733,826
Equity mutual funds:		
International Markets	34,977,346	29,755,351
Large cap blend and growth	23,028,955	20,537,848
Small and mid cap	9,534,586	9,760,633
Fixed income mutual funds	44,955,942	40,044,514
Alternative investments		
Common trust funds	17,703,570	15,555,088
Multi-strategy hedge funds	4,164,606	3,453,138
Private equity funds	19,546,820	18,040,655
Real estate investment funds	3,410,788	3,859,225
Land held for sale	71,670	61,245
	$ 175,100,579	$ 157,143,003

The University's temporarily and permanently restricted net assets include various endowment funds established by donors. At May 31, 2014, the fair value of the assets of some of these funds was $2,571,771 less than the level required by donor stipulation or law.

Total investment return is comprised of the following:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 4,275,069	$ —	$ —	$ 4,275,069
Net realized and unrealized gains	470,339	12,910,792	—	13,381,131
Total return on investments	4,745,408	12,910,792	—	17,656,200
Investment return designated for current operations	(5,178,517)	(1,356,371)	—	(6,534,888)
Investment income from trusts held by others	379,219	—	—	379,219
Other investment income	97,525	—	—	97,525
Net investment return less amounts designated for current operations	$ 43,635	$ 11,554,421	$ —	$ 11,598,056

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 4,033,209	$ —	$ —	$ 4,033,209
Net realized and unrealized gains	2,396,330	15,038,301	—	17,434,631
Total return on investments	6,429,539	15,038,301	—	21,467,840
Investment return designated for current operations	(6,500,623)	—	—	(6,500,623)
Investment income from trusts held by others	26,663	—	—	26,663
Other investment income	98,515	—	—	98,515
Net investment return less amounts designated for current operations	$ 54,094	$ 15,038,301	$ —	$ 15,092,395

Cash equivalents and investments are restricted for the following at May 31:

	2014	2013
Capital projects and debt service	$ 938,527	$ 1,890,482
Loan funds	2,021,636	1,342,001
Total	$ 2,960,163	$ 3,232,483

Alternative Investments

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share (or its equivalent) of the investments. Alternative investments held at May 31 consist of the following:

	May 31, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private common trust funds (A)	$ 17,703,570	$ —	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	4,164,606	—	Monthly-Quarterly	30-90 days
Private equity funds (C)	19,546,820	16,458,599	Nonredeemable	N/A
Real estate investment funds (D)	3,410,788	165,657	Nonredeemable	N/A

	May 31, 2013			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private common trust funds (A)	$ 15,555,088	$ —	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	3,453,138	—	Monthly-Quarterly	30-90 days
Private equity funds (C)	18,040,655	12,832,530	Nonredeemable	N/A
Real estate investment funds (D)	3,859,225	165,657	Nonredeemable	N/A

(A) This category includes investments in private common trust funds that invest primarily in U.S. common stocks. Management of these funds can employ a variety of strategies; however, the trust funds primarily are designed to track certain broad market indices. These investments can be redeemed, and there are no restrictions outside of the normal redemption frequency terms at May 31, 2014.

(B) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in various private investment funds that employ various long/short, macro-driven, absolute return, arbitrage and event-driven strategies. These investments can be redeemed and there are no restrictions outside of the normal redemption terms at May 31, 2014.

(C) This category includes several private equity funds that invest in early stage, high-growth private companies, growth equity financing, leverage buyouts, securities and other obligations of distressed businesses and financially troubled companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the fund. It is estimated the underlying assets of the funds will be liquidated over the next 1 to 7 years. Pursuant to fund agreements, the University has committed to fund future capital calls on these funds totaling $16,458,599 and $12,832,530 at May 31, 2014 and 2013, respectively. Subsequent to May 31, 2014, the University paid $805,728 to fund capital calls.

(D) This category includes two real estate funds that invest primarily in U.S. Commercial real estate. The fair values of the investments in this category have been estimated using the net asset value (or its equivalent) of the University's ownership interest in partners' capital. One of the funds can never be redeemed. Distributions from this fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets for this fund will be liquidated over the next 5 to 7 years. The remaining fund is indefinitely gated due to impairment and the value reflected in the financial statements is nominal at May 31, 2014 and 2013. Pursuant to fund agreements, the University has committed to fund future capital calls on the one fund totaling $165,657 at May 31, 2014 and 2013. Subsequent to May 31, 2014, the University paid $0 to fund capital calls.

Note 4: Notes Receivable

The University makes uncollateralized loans to students through its participation in the Federal Perkins Loan program, Health Professions Student Loan program (HPSL) and Nursing Student Loan program (NSL). The availability of funds under these three federal loan programs is dependent on reimbursement to the loan fund from repayments on outstanding loans. Funds advanced by the federal government totaled $10,749,757 and $10,637,706 as of May 31, 2014 and 2013, respectively. These advances are ultimately refundable to the federal government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of funds available for future loans and a decrease in the University's liability to the federal government. These loan amounts represent 2.9% and 3.0% of total assets as of May 31, 2014 and 2013, respectively.

The University also makes uncollateralized loans to students and student organizations through institutional loan funds. The loans to students are generally based on financial need. The loans to student organizations are typically secured by certain property for which the loans were made.

Allowances for doubtful accounts are established based on current economic factors and specific circumstances of the borrower which, in management's judgment, could influence the ability of the borrower to repay the amounts per the loan terms. For the federal loan programs, the federal government bears the risk of loss of uncollectible loans provided the University performs required collection due diligence procedures, therefore affecting the determination of the needed allowance for losses. The University does not stop the accrual of interest until a loan is written off; therefore, the University has no loans on nonaccrual status.

Categories of loans at May 31 include:

	2014	2013
Student loans receivable		
Federal government programs	$ 9,748,882	$ 10,346,735
Institutional programs	2,480,478	2,548,916
Total student loans receivable	12,229,360	12,895,651
Less allowance for doubtful accounts		
Balance, beginning of year	(430,850)	(330,000)
Provision charged to income (expense)	410,144	(100,850)
Balance, end of year	(20,706)	(430,850)
Net loans receivable	$ 12,208,654	$ 12,464,801

Note 5: Property and Equipment

Property and equipment are summarized as follows at May 31:

	2014	2013
Land	$ 8,134,731	$ 8,134,731
Land improvements	7,706,138	7,327,222
Buildings	194,281,265	191,597,977
Equipment, furniture, fixtures and vehicles	23,210,159	33,237,789
Collections	1,864,029	1,864,029
Construction in progress	261,636	42,020
	235,457,958	242,203,768
Less accumulated depreciation	(94,006,911)	(97,573,902)
	$ 141,451,047	$ 144,629,866

The following construction commitments exist as of May 31:

	2014	2013
Soccer and Track & Field Improvements	$ 266,537	$ —
Chapel Chiller Replacement	265,000	—
The Inn remediation	—	4,420,392
McIntosh Chiller replacement	—	535,740
	$ 531,537	$ 4,956,132

Note 6: Beneficial Interest in Remainder Trusts and Perpetual Trusts

The University is the beneficiary under various charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive the net assets of these trusts at the end of the trust's term. The beneficial interest in these trusts is recorded at the present value of the expected future cash flows discounted at 3.0% for 2014 and 2013, and applicable mortality tables. The estimated value of the expected future cash flows is $4,448,561 and $4,227,703 at May 31, 2014 and 2013, respectively.

The University is also the beneficiary under various perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $7,871,376 and $7,609,780, which represents the fair value of the trust assets at May 31, 2014 and 2013, respectively.

Note 7: Bonds Payable

Bonds payable consist of the following:

	2014	2013
1999 State of Ohio Higher Educational Facility Revenue Bonds, interest at fixed amounts ranging from 4.75% to 4.85% depending upon term of bond, maturing through May 2019, payable in annual installments ranging from $600,000 in 2013 to $625,000 in 2014 and a term bond of $3,610,000 in 2019 (Refinanced in 2014)	$ —	$ 4,235,000
2002 State of Ohio Higher Educational Facility Revenue Bonds, interest at fixed amounts ranging from 5.00% to 5.75% depending on term of bonds, principal due of $2,125,000 in 2016 and $4,115,000 in 2022 (Refinanced in 2014)	—	5,750,000
2003 State of Ohio Higher Educational Facility Refunding Revenue Bonds, interest at fixed amount ranging from 4.00% to 5.25% depending on terms of bond, principal due of $900,000 in May 2013 and $5,200,000 in 2018 (Refinanced in 2014)	—	5,200,000
2005 State of Ohio Higher Educational Facility Revenue Bonds, interest at fixed amounts ranging from 3.875% to 5.00% depending on terms of bonds, payable in annual installments ranging from $645,000 in 2013 to $695,000 in 2015 and term bonds of $3,995,000 due in 2020, $6,275,000 due in 2026 and $6,835,000 due in 2031	17,800,000	18,470,000
2008 State of Ohio Higher Educational Facility Revenue Bonds, Series A, interest varies with the USD-SIFMA Municipal Swap Index rate and is reset weekly, rates ranged from .06% to .26% in 2012, maturing through May 2033, payable in annual installments beginning in 2017 ranging from $335,000 to $2,310,000 (Refinanced in 2014)	—	27,120,000
2008 State of Ohio Higher Educational Facility Revenue Bonds, Series B, interest varies with the USD-LIBOR-BBA rate and is reset weekly, rates ranged from .18% to .30% in 2012, maturing through May 2017, payable in annual installments beginning in 2013 ranging from $770,000 to $1,050,000 (Refinanced in 2014)	—	3,760,000
2013 Economic Development Facilities Revenue Refunding Bonds, Series A1, interest at fixed rate of 3.75%, through April 2024, then an estimated rate of 3.44%, maturing through May 2038, payable in annual installments beginning in 2014 ranging from $155,000 to $280,000	4,825,000	—
2013 Economic Development Facilities Revenue Refunding Bonds, Series A2, interest at fixed rate of 3.50% , through April 2021, then an estimated rate of 3.44%, maturing through May 2038, payable in annual installments beginning in 2014 ranging from $510,000 to $925,000	15,915,000	—

	2014	2013
2013 Economic Development Facilities Revenue Refunding Bonds, Series B, interest at fixed rate of 2.37%, through April 2018, then an estimated rate of 3.44%, maturing through May 2038, payable in annual installments beginning in 2014 ranging from $755,000 to $1,370,000	$ 23,465,000	$ —
2013 Economic Development Facilities Revenue Refunding Bonds, Series C, interest at fixed rate of 2.95%, maturing through May 2017, payable in annual installments beginning in 2014 ranging from $395,000 to $950,000	3,655,000	—
	65,660,000	64,535,000
Plus unamortized premium	582,984	619,421
	$ 66,242,984	$ 65,154,421

In connection with the issuance of the 2005 bonds, the Trustee, as lessor, and the University, as lessee, have entered into a lease for various facilities. Under the terms of the lease, the University is required to make rental payments in amounts sufficient to pay the principal, interest and any premium on the bonds whether at maturity, upon accelerations or upon redemption. In order to secure the University's commitment to pay the Trustee the lease payments, the Trustee has a security interest in the various facilities.

In connection with issuance of the Series 2013 bonds, the University, as borrower, entered into a loan agreement with the issuer, County of Hardin Ohio. Under the terms of the loan agreement, the University is required to make payments at such times and in such amounts (including principal, interest and premium, if any) so as to provide for the payment of the principal of premium, if any, and interest on the bonds outstanding. The University has pledged, assigned, conveyed, transferred, granted, and ratified to the Trustee, an assignee of the issuer, a first priority security interest in, general lien upon, the University's general receipts.

As part of the issuance of the Series 2013 bonds, the University terminated letters of credit totaling approximately $31,580,000 related to the financing of the 2008 series of bonds. These bonds were also subject to a remarketing agreement, which was also terminated as a result of the 2013 issuance.

The issuance of the Series 2013 bonds triggered an early extinguishment of unamortized bond origination costs from the Series 1999 bonds, the Series 2002 bonds, the Series 2003 bonds and the Series 2008 bonds. The amount of unamortized bond origination costs was $599,282 and is reflected as a non-operating loss on extinguishment of debt on the statement of activities.

Aggregate annual principal payments required on bonds payable at May 31, 2014, are:

2015	$ 2,990,000
2016	3,090,000
2017	3,335,000
2018	3,440,000
2019	3,410,000
Thereafter	49,395,000
	$ 65,660,000

The bond payable agreements contain certain covenants, including continuation of use of University facilities for educational purposes, maintenance of insurance policies, and availability of certain financial records. As of May 31, 2014 and 2013, the University is in compliance with these covenants.

Interest expense was $2,816,803 and $3,274,155 for the years ended May 31, 2014 and 2013, respectively.

Note 8: Derivative Financial Instruments — Interest Rate Swap Agreements

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into two interest rate swap agreements for both the 2008 Series A and B variable rate debt. On July 1, 2008, the University entered into a 25-year interest rate swap agreement with the intent of reducing the impact of changes in interest rates on its 2008 Series A variable rate demand tax-exempt bonds. The agreement provided for the University to receive interest from the counterparty at the USD-SIFMA Municipal Swap Index rate and to pay interest to the counterparty at a fixed rate of 3.895% on a notional amounts of $0 and $27,120,000 at May 31, 2014 and 2013. This interest rate swap was terminated as part of the issuance of the 2013 bonds.

On July 1, 2008, the University also entered into a 9-year interest rate swap agreement with the intent of reducing the impact of changes in interest rates on its 2008 Series B variable rate demand taxable bonds. The agreement provided for the University to receive interest from the counterparty at the USD-LIBOR-BBA rate and to pay interest to the counterparty at a fixed rate of 4.315% on a notional amounts of $0 and $3,760,000 at May 31, 2014 and 2013. The difference between the variable and the fixed interest rate was settled monthly and was included in interest expense. The agreement was recorded at fair value with subsequent changes in fair value included in other income or expense. This interest rate swap was terminated as part of the issuance of the 2013 bonds.

The table below presents certain information regarding the University's interest rate swap agreements.

	2014	2013
Fair value of liability for interest rate swap agreements		
2008 Series A	$ —	$ 5,082,903
2008 Series B	—	328,031
	$ —	$ 5,410,934
Gain recognized in change in net assets		
2008 Series A	$ 1,734,903	$ 1,776,359
2008 Series B	57,031	161,576
	$ 1,791,934	$ 1,937,935

Note 9: Annuities and Trusts Payable

The University has been the recipient of many charitable gift annuities which require future payments to the donor or their named beneficiaries over the agreement's term (usually the designated beneficiary's lifetime). The assets received from the donor are recorded at fair value. The University has recorded a liability at May 31, 2014 and 2013, of $2,492,344 and $2,598,362, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2% to 10% and applicable mortality tables.

The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. The portion of the trust attributable to the future interest of the University is recorded in the statements of activities as temporarily or permanently restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the University's statements of financial position. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The University has recorded a liability at May 31, 2014 and 2013, of $984,994 and $1,069,773, respectively. The present value of the estimated future payments is calculated using discount rates ranging from 5% to 10% and applicable mortality tables.

Note 10: Postretirement Medical Benefits

The University has a postretirement medical benefit plan (Plan) to provide for the payment of certain health care benefits for retired employees who meet certain eligibility requirements under the Plan. The University's policy is to pay the cost of these health benefits as they occur. Effective January 1, 2013, the University amended the Plan's funding mechanism to Healthcare Reimbursement Accounts (HRA) for each eligible post-Medicare retiree. The HRAs are funded by the University.

The University uses a May 31 measurement date for the Plan. Information about the Plan's funded status follows:

	2014	2013
Accumulated postretirement benefit obligation	$ (24,105,702)	$ (22,279,239)
Fair value of Plan assets	—	—
Funded status	$ (24,105,702)	$ (22,279,239)

Liabilities recognized in the statements of financial position:

	2014	2013
Accrued benefit liability	$ (24,105,702)	$ (22,279,239)

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	2014	2013
Net loss	$ 6,413,343	$ 5,798,706
Prior service credit	(8,984,473)	(11,024,987)
	$ (2,571,130)	$ (5,226,281)

Other changes in benefit obligations recognized in change in net assets:

	Pension Benefits	
	2014	2013
Amounts arising during the period		
Net loss (gain)	$ 965,401	$ (274,159)
Net prior service credit	—	(10,615,393)
Amounts reclassified as components of net periodic benefit cost of the period		
Net gain	2,040,514	151,650
Net prior service credit	(350,764)	(311,814)

A reconciliation of the projected postretirement medical benefit obligation follows:

	Pension Benefits	
	2014	2013
Change in benefit obligation		
Obligation at June 1	$ 22,279,239	$ 31,917,046
Service cost	486,074	803,240
Interest cost	1,005,546	1,397,808
Plan amendments	—	(10,615,393)
Participant contributions	42,259	136,962
Actuarial (gain) loss	965,401	(274,159)
Benefit payments	(672,817)	(1,086,265)
Obligation at May 31	$ 24,105,702	$ 22,279,239

Other significant balances and costs as of May 31 are:

	2014	2013
Net periodic benefit costs	$ (198,130)	$ 2,361,212
Employer contributions	630,558	949,303
Participant contributions	42,259	136,962
Benefits paid	672,817	1,086,265

Components of net periodic postretirement benefit cost:

	2014	2013
Service cost	$ 486,074	$ 803,240
Interest cost	1,005,546	1,397,808
Amortization of prior service credit	(2,040,514)	(151,650)
Amortization of net loss	350,764	311,814
Net periodic postretirement benefit cost	$ (198,130)	$ 2,361,212

The estimated net loss and prior service credit for the defined-benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $420,018 and $1,988,066, respectively.

The University expects to contribute $880,432 to the Plan in fiscal year 2015. Shown below are the expected benefit payments for 2015-2019 and the five years thereafter:

2015	$ 880,432
2016	927,729
2017	1,014,118
2018	1,047,512
2019	1,081,967
2020 – 2025	6,180,787

The weighted-average discount rate and the assumed health care cost trend rate used in determining the postretirement benefit obligation and benefit costs were as follows:

	2014	2013
Discount rate	4.450%	4.600%
Health care cost trend rate	7.475%	7.650%

For 2014, the health care cost trend rate used in measuring the accumulated postretirement benefit was assumed to be 7.475%. The rate was assumed to decrease gradually to 4.50% by the year 2031 and remain at that level thereafter. For 2013, the health care cost trend rate used in measuring the accumulated postretirement benefit was assumed to be 7.650%. The rate was assumed to decrease gradually to 4.50% by the year 2031 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 28,407	$ (24,882)
Effect on accumulated postretirement benefit obligation	284,901	(252,716)

Note 11: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2014	2013
Unexpended property and equipment funds	$ 1,966,485	$ 3,223,839
Instruction, academic support and research	3,038,192	3,180,040
Loan program funds	3,170,903	2,320,505
Trusts and charitable gift annuities, net of obligations	4,958,207	4,257,581
Accumulated earnings on endowed funds for		
Scholarships	47,775,375	38,426,897
Instruction, academic support and research	36,450,870	31,985,472
Pledges receivable	—	219,210
	$ 97,360,032	$ 83,613,544

Permanently Restricted Net Assets

Permanently restricted net assets at May 31 are restricted to:

	2014	2013
Investment in perpetuity, the income of which is expendable to support		
Scholarships	$ 61,556,519	$ 60,164,503
Instruction and academic support	33,818,511	32,283,345
Any activity of the University	1,122,159	1,061,364
Trusts and charitable gift annuities, net of obligations	3,884,626	3,896,327
Total permanently restricted net assets	$ 100,381,815	$ 97,405,539

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2014	2013
Purpose restrictions accomplished		
Instruction, academic support and research	$ 1,442,881	$ 2,751,070
Other	1,655	4,300
Total net assets released from restrictions for operations	$ 1,444,536	$ 2,755,370
Property and equipment acquired and placed in service	2,622,070	429,666
Total satisfaction of capital acquisition restrictions	$ 2,622,070	$ 429,666

Note 12: Endowment

The University's endowment consists of approximately 560 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body has interpreted the State of Ohio Uniform Prudent Management of Institutional Funds Act (Ohio UPMIFA) as requiring preservation of historic dollar 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) any applicable other accumulations to the permanent endowment per the direction of the applicable donor gift instrument. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts appropriated for expenditure by the University in a manner consistent with the standards prescribed by Ohio UPMIFA. In accordance with Ohio UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

The composition of net assets by type of endowment fund at May 31, 2014 and 2013, was:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,571,771)	$ 84,361,138	$ 85,947,988	$ 167,737,355
Board-designated endowment funds	1,102,319	—	—	1,102,319
Total endowment funds	$ (1,469,452)	$ 84,361,138	$ 85,947,988	$ 168,839,674

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,328,135)	$ 70,544,399	$ 83,414,470	$ 149,630,734
Board-designated endowment funds	1,029,290	—	—	1,029,290
Total endowment funds	$ (3,298,845)	$ 70,544,399	$ 83,414,470	$ 150,660,024

Changes in endowment net assets for the years ended May 31, 2014 and 2013, were:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (3,298,845)	$ 70,544,399	$ 83,414,470	$ 150,660,024
Reclassification	—	3,621,738	—	3,621,738
Investment return				
Investment income	3,995,566	—	—	3,995,566
Net appreciation, realized and unrealized	786,956	13,302,286	—	14,089,242
Transfer to restore prior losses on temporarily restricted endowment assets	1,756,364	(1,756,364)	—	—
Total investment return	6,538,886	11,545,922	—	18,084,808
Contributions, current year	(7,220)	5,450	2,533,518	2,531,748
Appropriation of endowment assets for expenditure	(4,702,273)	(1,356,371)	—	(6,058,644)
Endowment net assets, end of year	$ (1,469,452)	$ 84,361,138	$ 85,947,988	$ 168,839,674

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as previously stated	$ (6,999,228)	$ 59,115,365	$ 79,223,216	$ 131,339,353
Investment return				
Investment income	3,725,544	—	—	3,725,544
Net appreciation, realized and unrealized	3,779,966	14,030,185	—	17,810,151
Transfer to restore prior losses on temporarily restricted endowment net assets	2,671,093	(2,671,093)	—	—
Total investment return	10,176,603	11,359,092	—	21,535,695
Contributions, current year	24,403	69,942	2,918,857	3,013,202
Collection of pledges	—	—	1,272,397	1,272,397
Appropriation of endowment assets for expenditure	(6,500,623)	—	—	(6,500,623)
Endowment net assets, end of year	$ (3,298,845)	$ 70,544,399	$ 83,414,470	$ 150,660,024

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at May 31 consisted of:

	2014	2013
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 85,947,988	$ 83,414,470
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 84,211,361	$ 70,412,369
Term endowments	149,777	132,030
	$ 84,361,138	$ 70,544,399

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Ohio UPMIFA. Such endowments are often referred to as "underwater" endowments. Though the University is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar value, accounting guidance for not-for-profit organizations require that such losses and subsequent gains be reflected as changes to unrestricted net assets until the fair values again reach their historical dollar values.

In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $2,571,771 and $4,328,135 at May 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body at the time of such appropriation. Any future gains that restore the fair value of the assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets.

The University has adopted investment and spending policies for endowment assets whose objective is to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods, as well as those of Board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to a) earn a reasonable rate of return so as to maintain intergenerational equity, b) maintain an appropriately diversified portfolio, across asset classes and investment managers and c) maintain adequate liquidity to support expected distributions, portfolio balancing, funding of illiquid mandates, as well as reasonable expected needs. Return performance will be measured as compared to various and monitored benchmarks established by the investment committee measured over a full business cycle, typically three to five years. Actual returns in any given year may vary from this amount.

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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University adopted a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's average fair value over the prior twelve quarters through the calendar year-end preceding the fiscal year in which expenditure is planned. This distribution is intended to support operations as well as cover investment-related fees and expenses. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 7%-8% annually, before appropriation. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 13: Employee Retirement Benefits

The University has a defined contribution plan. Retirement benefits are provided for employees through TIAA-CREF, a national, multi-employer organization used to fund retirement benefits for educational institutions. Employees are able to contribute to the Plan from earnings up to the maximum allowed by the Internal Revenue Service code. On September 1, 2011, the University changed its contribution from 10% to 7%. The contribution rate is determined annually by the Board of Trustees and currently remains at 7%. The University's contributions to the Plan were $2,345,650 and $2,182,800 for the years ended May 31, 2014 and 2013, respectively. The employees are 100% vested when funds are deposited to the Plan.

Note 14: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2014 and 2013:

	2014			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases				
Money market funds	$ 788,917	$ 788,917	$ —	$ —
Investments				—
Money market funds	2,894,090	2,894,090	—	—
Common stocks	13,220,545	11,874,764	—	1,345,781
U.S. Government and agency obligations	805,682	—	805,682	—
Corporate debt securities	655,739	—	655,739	—
Equity mutual funds				
International markets	34,977,346	34,977,346	—	—
Large cap blend and growth	23,028,955	23,028,955	—	—
Small and mid cap	9,534,586	9,534,586	—	—
Fixed income mutual funds	44,955,942	44,955,942	—	—
Alternative investments				
Common trust funds	17,703,570	—	17,703,570	—
Multi-strategy hedge funds	4,164,606	—	4,164,606	—
Private equity funds	19,546,820	—	—	19,546,820
Real estate investment funds	3,410,788	—	—	3,410,788
Land held for sale	71,670	—	—	71,670
Assets Held in Charitable Remainder Trusts	1,931,997	1,917,065	14,932	—
Beneficial Interest in Remainder Trusts	4,448,561	—	—	4,448,561
Beneficial Interest in Perpetual Trusts	7,871,376	—	—	7,871,376

	2013			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases				
Money market funds	$ 1,526,652	$ 1,526,652	$ —	$ —
Investments				
Money market funds	1,115,668	1,115,668	—	—
Common stocks	11,902,894	10,590,187	—	1,312,707
U.S. Government and agency obligations	796,266	—	796,266	—
Corporate debt securities	733,826	—	733,826	—
Equity mutual funds				
International markets	29,755,351	29,755,351	—	—
Large cap blend and growth	20,537,848	20,537,848	—	—
Small and mid cap	9,760,633	9,760,633	—	—
Fixed income mutual funds	40,044,514	40,044,514	—	—
Alternative investments				
Common trust funds	15,555,088	—	15,555,088	—
Multi-strategy hedge funds	3,453,138	—	3,453,138	—
Private equity funds	18,040,655	—	—	18,040,655
Real estate investment funds	3,859,225	—	—	3,859,225
Land held for sale	61,245	—	—	61,245
Assets Held in Charitable Remainder Trusts	1,927,068	1,911,924	15,144	
Beneficial Interest in Remainder Trusts	4,227,703	—	—	4,227,703
Beneficial Interest in Perpetual Trusts	7,609,780	—	—	7,609,780
Liabilities				
Interest Rate Swap Agreements	(5,410,934)	—	(5,410,934)	—

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The University has no assets or liabilities measured at fair value on a nonrecurring basis.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

Cash Equivalents and Investments, Restricted for Loans and Long-Lived Asset Purchases, Investments and Assets Held in Charitable Remainder Trusts

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the University expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the University does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Controller's Office. The Controller's Office obtains valuation from third parties as needed to generate fair value estimates. The Controller's Office reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Beneficial Interest in Remainder Trusts

Fair value is estimated at the present value of the future assets expected to be received from the trust upon dissolution. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of beneficial interests in trusts is the responsibility of the Controller's Office. The Controller's Office obtains valuation from third parties as needed to generate fair value estimates. The Controller's Office reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Common Stocks	Private Equity Funds	Real Estate Investment Funds	Land Held for Sale	Beneficial Interest in Remainder Trusts	Beneficial Interest in Perpetual Trusts
Balance, June 1, 2012	$1,312,707	$17,508,371	$4,243,302	$ 61,245	$3,757,755	$6,776,846
Total realized and unrealized gains included in change in net assets	—	1,387,440	83,391	—	469,948	832,934
Purchases	—	2,350,072	35,042	—	—	—
Sales	—	(3,205,228)	(502,510)	—	—	—
Balance, May 31, 2013	1,312,707	18,040,655	3,859,225	61,245	4,227,703	7,609,780
Total realized and unrealized gains (losses) included in change in net assets	—	2,988,473	(161,645)	—	220,858	261,596
Purchases	33,074	2,565,756	46,882	10,425	—	—
Sales	—	(4,048,064)	(333,674)	—	—	—
Balance, May 31, 2014	$1,345,781	$19,546,820	$3,410,788	$ 71,670	$4,448,561	$7,871,376
Total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) related to assets and liabilities still held at the reporting date						
May 31, 2014	$ —	$ 2,988,473	$ (161,645)	$ —	$ 220,858	$ 261,596
May 31, 2013	$ —	$ 1,387,440	$ 83,391	$ —	$ 469,948	$ 832,934

The realized and unrealized gains and losses for items reflected in the table above are included in other revenue (expenses) in the consolidated statements of activities.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at May 31, 2014	Valuation Technique	Unobservable Inputs	Range
Common Stocks	$ 1,345,781	Market comparables	Liquidity and marketability discounts	0% - 30%
Private Equity Funds	19,546,820	Net asset value or equivalent	Redeemability	0%
Real Estate Investment Funds	3,410,788	Net asset value or equivalent	Redeemability	0%
Land Held for Sale	71,670	Market comparables	Marketability discounts and adjustments	0% - 20%
Beneficial Interest in Remainder Trusts	4,448,561	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial Interest in Perpetual Trusts	7,871,376	Discounted cash flows	Discount rates Market return rates	2% - 8%

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Land Held for Sale and Common Stocks

The significant unobservable inputs used in the fair value measurement of the University's common stocks and land held for sale would be comparable pricing inputs when prices for the identical security or instrument are not available. Valuation using comparable inputs is subjective and involves using a price of a comparable instrument and adjusting to account for a variety of relevant differences in the assets. Therefore, significant differences in the comparable inputs would result in higher or lower fair value measurement.

Private Equity Funds and Real Estate Investment Funds

Net asset value is used as a practical expedient to measure fair value of the University's hedged equity funds, private equity funds and multi-strategy funds. Net asset value is the value of a fund's assets less liabilities. There were no redeemability or other adjustments made to NAV.

Beneficial Interest in Remainder Trusts and Perpetual Trusts

The significant unobservable inputs used in the fair value measurement of the University's beneficial interest in remainder trusts and perpetual trusts are discount rates and market return rates. The discount rate of the trust is the interest rate utilized to discount future cash flows in a present value cash flow calculation. The discount rate used often represents the return market participants' would demand on similar assets. Therefore, significant increases (decreases) in the discount rate used would result in (lower) higher fair value measurement.

Fair Value of Financial Instruments

The following table presents estimated fair values of the University's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2014 and 2013.

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
May 31, 2014				
Financial assets:				
Cash and cash equivalents	$ 12,563,064	$ 12,563,064	$ —	$ —
Contributions receivable	783,686	—	—	783,686
Investments	175,100,579	127,395,923	23,329,597	24,375,059
Notes receivable	12,208,654	—	—	12,208,654
Assets held in charitable remainder trusts	1,931,997	1,917,065	14,932	—
Beneficial interest in remainder trusts	4,448,561	—	—	4,448,561
Beneficial interest in perpetual trusts	7,871,376	—	—	7,871,376
Financial liabilities:				
Bonds	66,242,984	—	66,242,984	—
Annuities and trusts payable	3,477,338	—	—	3,477,338
U.S. Government Refundable Advances	10,749,757	—	—	10,749,757

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
May 31, 2013				
Financial assets:				
Cash and cash equivalents	$ 21,413,261	$ 21,413,261	$ —	$ —
Contributions receivable	766,105	—	—	766,105
Investments	157,143,003	113,330,823	20,538,348	23,273,832
Notes receivable	12,464,801	—	—	12,464,801
Assets held in charitable remainder trusts	1,927,068	1,911,924	15,144	—
Beneficial interest in remainder trusts	4,227,703	—	—	4,227,703
Beneficial interest in perpetual trusts	7,609,780	—	—	7,609,780
Financial liabilities:				
Debt	65,154,421	—	66,739,595	—
Interest rate swap agreements	5,410,934	—	5,410,934	—
Annuities and trusts payable	3,668,135	—	—	3,668,135
U.S. Government Refundable Advances	10,637,706	—	—	10,637,706

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated by discounting the expected future cash flows using the risk-free rate of return at the time of contribution.

Notes Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities.

Bonds Payable

Fair value is estimated based on the borrowing rates available to the University for debt arrangements with similar terms and maturities.

U.S. Government Refundable Advances

Fair value is estimated by discounting the future cash flows using the risk-free rate of return at the time the fees are received.

Annuities and Trusts Payable

Fair value is based on an actuarial evaluation of the estimated annuity or other payments under such obligations.

Note 15: Significant Estimates, Concentrations, Commitments and Contingencies

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 17% and 22% of all contributions were received from one donor in 2014 and 2013, respectively.

Postretirement Medical Benefit Obligations

The University has a postretirement medical benefit plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Accrued Asset Retirement Obligation

Determination of the recorded liability is based on a number of estimates and assumptions including discount rates, abatement cost estimates and estimates of dates of abatement. The University estimated its liability at May 31, 2014 and 2013, to be $1,046,481 and $1,135,241, respectively, and is included in the statements of financial position.

Litigation and Remediation

The University is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

Commitment

In October 2011, moisture issues were discovered at The Inn at Ohio Northern University which was placed in service in 2008. Investigation and remediation efforts were begun at that time. A full plan of action was put into place in September 2012 upon the completion of a forensic engineering investigation. As this work was under way, additional serious design and construction deficiencies were discovered. An expanded remediation effort was implemented in May 2013. Remediation efforts were completed November 2013. During the remediation, the Inn continued to operate although on a partial basis as rooms and facilities were off-line. In November 2012, the University filed a lawsuit in Hancock County, Ohio seeking recovery from the general contractor and other associated parties. Trial is scheduled to begin no later than November 2015.

The University also initiated an arbitration proceeding against the architect. Through arbitration, the University recovered $613,000 in March 2014. Due to the non-recurring nature, the University reflected this recovery as a non-operating item in the statement of operating activities.

Through May 31, 2014, the University has spent $6.5 million for remediation and legal efforts. This includes the full contracted commitment with the remediation general contractor-at-risk and forensic engineering firm. It is expected that the total cost of remediation, including legal expenses for the recovery litigation, will exceed this amount, but most remaining expenses (excluding legal fees which are on a contingent basis) are on a time and materials basis and, therefore, not estimable in accordance with the standards of ASC 450. Due to its non-recurring nature, the University has reflected this expense as a non-operating item in the statement of operating activities. The University continues to vigorously pursue recovery of its damages, but can make no estimate at this time as to the timing and outcome of the litigation or the ultimate probable recovery, if successful in the litigation. The accrual to date does not include any estimate for potential recovery. The University is funding the outflow of cash for remediation from its working capital.

Note 16: Risks and Uncertainties

The University invests in various investment securities. 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 at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of financial position.

Note 17: Net Asset Reclassifications

The University had previously classified some contributions funds related to endowment as unrestricted. Upon further review and reconciliation, it was determined that certain amounts needed to be reclassified to temporarily restricted and permanently restricted net assets. In 2014, the University has therefore reclassified $3,281,507 of funds from unrestricted net assets to temporarily restricted net assets ($2,976,578) and permanently restricted net assets ($304,929).

The University previously classified some contributions received from donors as temporarily restricted. Upon further review of documentation from the donors, it was determined that these contributions are permanently restricted or unrestricted. In 2013, the University reclassified $1,375,314 in contributions from temporarily to permanently restricted net assets and $1,250,000 in contributions from temporarily restricted to unrestricted net assets.

Note 18: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were issued.