OHIO NORTHERN UNIVERSITY

Independent Auditor's Report and Consolidated Financial Statements

May 31, 2015 and 2014

BKD LLP
CPAs & Advisors

Ohio Northern University
May 31, 2015 and 2014

Contents

BKD LLP
CPAs & Advisors

200 E. Main Street, Suite 700 // Fort Wayne, IN 46802-1900
260.460.4000 // fax 260.426.2235 // bkd.com

Independent Auditor's Report on Consolidated Financial Statements

Board of Trustees
Ohio Northern University
Ada, Ohio

Report on the 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, 2015 and 2014, 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 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 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 organization'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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015, 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
September 24, 2015

Ohio Northern University

Consolidated Statements of Financial Position

May 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 9,559,061	$ 12,563,064
Student accounts receivable, net of allowance of $1,046,417 in 2015 and $968,484 in 2014	2,649,839	2,092,319
Contributions receivable, net of allowance of $111,994 in 2015 and $61,000 in 2014	717,095	783,686
Other receivables	1,829,036	1,998,835
Cash equivalents and investments restricted for loans and long-lived asset purchases	4,373,611	2,960,163
Inventories	446,036	382,014
Prepaid expenses	1,630,105	1,417,488
Investments	173,798,873	175,100,579
Notes receivable, net of allowance of $20,600 in 2015 and $20,706 in 2014	11,469,336	12,208,654
Assets held in charitable remainder trusts	1,776,294	1,931,997
Bond origination costs	1,102,415	1,028,430
Property and equipment	135,941,776	141,451,047
Cash value of life insurance	766,122	590,831
Beneficial interest in remainder trusts	3,325,163	4,448,561
Beneficial interest in perpetual trusts	7,963,274	7,871,376
Total assets	$ 357,348,036	$ 366,829,044
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 3,452,600	$ 2,925,660
Accrued expenses	8,256,115	8,879,700
Deferred revenue and deposits	2,688,212	3,832,230
Bonds payable	63,455,000	66,242,984
Annuities and trusts payable	3,177,934	3,477,338
Postretirement medical benefits	27,882,972	24,105,702
Other	1,065,560	1,075,416
U.S. Government refundable advances	10,871,971	10,749,757
Total liabilities	120,850,364	121,288,787
Net Assets		
Unrestricted	40,950,297	47,798,410
Temporarily restricted	92,784,061	97,360,032
Permanently restricted	102,763,314	100,381,815
Total net assets	236,497,672	245,540,257
Total liabilities and net assets	$ 357,348,036	$ 366,829,044

Ohio Northern University

Consolidated Statement of Activities
Year Ended May 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Tuition and fees	$ 95,221,347	$ —	$ —	$ 95,221,347
Less scholarships and aid	(43,769,104)	—	—	(43,769,104)
Net tuition and fees	51,452,243	—	—	51,452,243
Gifts and bequests	1,747,228	610,729	—	2,357,957
Grants and contracts	1,689,518	72,363	—	1,761,881
Investment return designated for operations	6,852,196	2,045,048	—	8,897,244
Investment income from trusts held by others	28,369	—	—	28,369
Other investment income	64,067	(4,015)	—	60,052
Other	1,334,252	124,161	—	1,458,413
Auxiliary enterprises	21,607,449	—	—	21,607,449
Net assets released from restrictions for operating items	3,673,619	(3,673,619)	—	—
Total revenue, gains and other support	88,448,941	(825,333)	—	87,623,608
Expenses				
Instruction	39,745,703	—	—	39,745,703
Sponsored programs	1,244,672	—	—	1,244,672
Academic support	3,587,877	—	—	3,587,877
Libraries	3,307,753	—	—	3,307,753
Student services	11,767,356	—	—	11,767,356
Auxiliary	19,197,870	—	—	19,197,870
Total educational activities	78,851,231	—	—	78,851,231
Institutional support	8,434,520	—	—	8,434,520
Fundraising	1,563,314	—	—	1,563,314
Total expenses	88,849,065	—	—	88,849,065
Change in Net Assets Before Other Revenue (Expenses)	(400,124)	(825,333)	—	(1,225,457)
Other Revenues (Expenses)				
The Inn remediation	(154,043)	—	—	(154,043)
Gifts restricted for endowment	—	3,300	3,964,555	3,967,855
Gifts restricted for acquisition of long-lived assets	—	1,119,702	—	1,119,702
Investment return less amounts designated for operations	16,042	(5,154,853)	—	(5,138,811)
Change in value of split-interest agreements	(2,689)	(226,543)	387,945	158,713
Actuarial adjustment to postretirement medical benefit liability	(4,887,306)	—	—	(4,887,306)
Amortization of bond origination costs	(166,627)	—	—	(166,627)
Loss on extinguishment of debt	(130,999)	—	—	(130,999)
Change in beneficial interest in perpetual trusts	—	—	91,898	91,898
One-time restructuring expenses	(2,677,510)	—	—	(2,677,510)
Transfer for underwater endowment assets	(205,702)	205,702	—	—
Net assets released from restrictions – non-operating	1,445,823	(1,445,823)	—	—
Satisfaction of capital acquisition restrictions	315,022	(315,022)	—	—
Total other revenue (expenses)	(6,447,989)	(5,813,537)	4,444,398	(7,817,128)
Change in Net Assets Before Effect of Reclassification of Net Assets	(6,848,113)	(6,638,870)	4,444,398	(9,042,585)
Reclassification of Net Assets	—	2,062,899	(2,062,899)	—
Change in Net Assets	(6,848,113)	(4,575,971)	2,381,499	(9,042,585)
Net Assets, Beginning of Year	47,798,410	97,360,032	100,381,815	245,540,257
Net Assets, End of Year	$ 40,950,297	$ 92,784,061	$ 102,763,314	$ 236,497,672

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	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 Statements of Cash Flows
Years Ended May 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	$ (9,042,585)	$ 11,962,439
Items not requiring (providing) operating activities cash flows		
Depreciation	7,313,572	7,302,162
Amortization of bond origination costs	71,720	24,403
Expense of bond origination costs due to refinance	130,999	609,282
Amortization of bond premium	(16,472)	(36,437)
Amortization of bond premium due to refinancing	(566,512)	—
Change in allowance for doubtful accounts	77,826	(410,144)
Net realized and unrealized gains on investments	(830,551)	(13,775,817)
Change in fair value of interest rate swap agreements	—	(1,791,934)
Loss on sale of property and equipment	6,025	—
Gain on beneficial interest in perpetual trust	(91,898)	(261,596)
Contributions restricted for long-term investment	(3,964,555)	(2,421,453)
Contributions restricted for acquisition of long-lived assets	(1,119,702)	(2,403,018)
Changes in		
Student accounts receivable	(635,452)	(181,080)
Contributions receivable	66,591	(17,581)
Other receivables	(287,984)	(372,069)
Inventories	(64,022)	79,095
Prepaid expenses and other assets	(212,617)	(153,156)
Beneficial interest in remainder trusts	1,279,101	(225,787)
Accounts payable	526,940	(1,052,362)
Accrued expenses	(623,585)	(1,867,493)
Deferred revenue and deposits	(1,144,018)	320,025
Annuities and trusts payable	(299,404)	(190,797)
Postretirement medical benefits	3,777,270	1,826,463
Other liabilities	(9,856)	(59,825)
Net cash used in operating activities	(5,659,169)	(3,096,680)
Investing Activities		
Purchase of property and equipment	(1,831,326)	(3,935,052)
Decrease in notes receivable	1,197,207	666,291
Purchases of investments	(124,243,785)	(47,081,268)
Proceeds from sales and maturities of investments	126,376,042	42,899,509
Proceeds from sale of fixed assets	21,000	—
(Decrease) increase in cash equivalents and investments restricted for loans and long-lived asset purchases	(1,413,448)	272,320
Increase in cash value of life insurance	(175,291)	(169,168)
Net cash used in investing activities	(69,601)	(7,347,368)
Financing Activities		
Principal payments on bonds	(20,720,000)	(48,750,000)
Issuance of new debt	18,515,000	49,875,000
Bond origination costs on new debt	(276,704)	(909,297)
Proceeds from contributions restricted for long-term investment	3,964,555	2,421,453
Proceeds from contributions restricted for acquisition of long-lived assets	1,119,702	2,403,018
Disposition of interest rate swap	—	(3,619,000)
Increase in U.S. Government refundable advances	122,214	112,051
Net cash provided by financing activities	2,724,767	1,533,225
Net Decrease in Cash and Cash Equivalents	(3,004,003)	(8,910,823)
Cash and Cash Equivalents, Beginning of Year	12,563,064	21,473,887
Cash and Cash Equivalents, End of Year	$ 9,559,061	$ 12,563,064
Supplemental Cash Flows Information		
Interest paid	$ 2,058,305	$ 2,230,907

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, 2015 and 2014, cash equivalents consisted primarily of money market funds.

At May 31, 2015, the University's cash accounts which are held at multiple financial institutions exceeded federally insured limits by approximately $13,800,000. 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 $1,249,000 and $1,178,000 at May 31, 2015 and 2014, 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 2015 or 2014.

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 2012. 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, 2015 and 2014. 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, 2015 and 2014, the University had an accrual of $897,442 and $792,281, 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:

	2015	2014
Less than one year	$ 332,237	$ 719,080
Due one to five years	486,943	112,785
Due after five years	21,000	21,000
	840,180	852,865
Less allowance for uncollectible contributions	(111,994)	(61,000)
Less present value discount	(11,091)	(8,179)
	$ 717,095	$ 783,686

Discount rates ranged from 0.26% to 3.10% for 2015 and 2014.

Note 3: Investments and Investment Return

Investments at May 31 consisted of the following:

	2015	2014
Cash and money market funds	$ 1,526,898	$ 3,024,330
Common stocks	13,629,285	13,220,545
U.S. Government and agency obligations	879,485	805,682
Corporate debt securities	488,489	655,739
Equity mutual funds:		
International Markets	41,444,604	34,977,346
Large cap blend and growth	42,499,515	23,028,955
Small and mid-cap	5,163,412	9,534,586
Fixed income mutual funds	33,981,955	44,955,942
Alternative investments		
Common trust funds	8,318,320	17,703,570
Multi-strategy hedge funds	3,347,864	4,164,606
Private equity funds	19,628,108	19,546,820
Real estate investment funds	2,791,241	3,410,788
Land held for sale	99,697	71,670
	$ 173,798,873	$ 175,100,579

The University's temporarily and permanently restricted net assets include various endowment funds established by donors. At May 31, 2015, the fair value of the assets of some of these funds was $2,777,473 less than the level required by donor stipulation or law.

Total investment return is comprised of the following:

	2015	2014
Operating		
Endowment income and gains distributed	$ 8,897,244	$ 6,058,144
Total operating	8,897,244	6,058,144
Non-operating		
Interest and dividend income (net of expenses)	2,927,882	3,880,383
Net realized and unrealized gains	830,551	13,775,817
Investment return designated for current operations	(8,897,244)	(6,058,144)
Total non-operating	(5,138,811)	11,598,056
Total return on investments	$ 3,758,433	$ 17,656,200

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

	2015	2014
Capital projects and debt service	$ 931,856	$ 938,527
Loan funds	3,441,755	2,021,636
Total	$ 4,373,611	$ 2,960,163

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, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private common trust funds (A)	$ 8,318,320	$ —	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	3,347,864	—	Monthly-Quarterly	30-90 days
Private equity funds (C)	19,628,108	20,563,236	Nonredeemable	N/A
Real estate investment funds (D)	2,791,241	165,657	Nonredeemable	N/A

	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

(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, 2015.

(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, 2015.

(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 one to seven years. Pursuant to fund agreements, the University has committed to fund future capital calls on these funds totaling $20,563,236 and $16,458,599 at May 31, 2015 and 2014, respectively. Subsequent to May 31, 2015, the University paid $705,346 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 five to seven years. The remaining fund is indefinitely gated due to impairment and the value reflected in the financial statements is nominal at May 31, 2015 and 2014. Pursuant to fund agreements, the University has committed to fund future capital calls on the one fund totaling $165,657 at May 31, 2015 and 2014. Subsequent to May 31, 2015, 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 $10,871,971 and $10,749,757 as of May 31, 2015 and 2014, respectively. These advances are ultimately refundable to the federal government and are classified as liabilities in the consolidated statements 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 3.0% and 2.9% of total assets as of May 31, 2015 and 2014, 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:

	2015	2014
Student loans receivable		
Federal government programs	$ 9,074,381	$ 9,748,882
Institutional programs	2,415,555	2,480,478
Total student loans receivable	11,489,936	12,229,360
Less allowance for doubtful accounts		
Balance, beginning of year	(20,706)	(430,850)
Provision charged to income	106	410,144
Balance, end of year	(20,600)	(20,706)
Net loans receivable	$ 11,469,336	$ 12,208,654

Note 5: Property and Equipment

Property and equipment are summarized as follows at May 31:

	2015	2014
Land	$ 8,134,731	$ 8,134,731
Land improvements	7,933,793	7,706,138
Buildings	195,080,674	194,281,265
Equipment, furniture, fixtures and vehicles	22,472,590	23,210,159
Collections	1,864,029	1,864,029
Construction in progress	483,723	261,636
	235,969,540	235,457,958
Less accumulated depreciation	(100,027,764)	(94,006,911)
	$ 135,941,776	$ 141,451,047

The following construction commitments exist as of May 31:

	2015	2014
Lacrosse locker room renovation	$ 177,203	$ —
Klinger Road beautification	40,625	—
Soccer and track and field improvements	—	266,537
Chapel chiller replacement	—	265,000
	$ 217,828	$ 531,537

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 1.8% and 3.0% for 2015 and 2014, respectively, and applicable mortality tables. The estimated value of the expected future cash flows is $3,325,163 and $4,448,561 at May 31, 2015 and 2014, 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 $7,963,274 and $7,871,376, which represents the fair value of the trust assets at May 31, 2015 and 2014, respectively.

Note 7: Bonds Payable

Bonds payable consist of the following:

	2015	2014
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. These bonds were retired early with proceeds from the issuance of the 2014 bonds	$ —	$ 17,800,000
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 ranging from $160,000 to $280,000	4,670,000	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 ranging from $520,000 to $925,000	15,405,000	15,915,000
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 ranging from $775,000 to $1,370,000	22,710,000	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 ranging from $910,000 to $950,000	2,780,000	3,655,000
2014 Economic Development Facilities Revenue Refunding Bonds, interest rate at fixed rate of 3.30% through April 2021, then an estimated rate of 3.75%, maturing through May 2031, payable in annual installments ranging from $675,000 to $1,480,000	17,890,000	—
	63,455,000	65,660,000
Plus unamortized premium	—	582,984
	$ 63,455,000	$ 66,242,984

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 consolidated statement of activities.

In connection with the issuance of the Series 2014 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 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.

The issuance of the Series 2014 bonds triggered an early extinguishment of unamortized bond origination costs from the Series 2005 bonds. The amount of the unamortized bond origination costs was $130,999 and is reflected as a non-operating loss on extinguishment of debt on the consolidated statement of activities.

Aggregate annual principal payments required on bonds payable at May 31, 2015, are:

2016	$ 3,040,000
2017	3,325,000
2018	3,495,000
2019	3,500,000
2020	3,090,000
Thereafter	47,005,000
	$ 63,455,000

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, 2015 and 2014, the University is in compliance with these covenants.

Interest expense was $1,945,416 and $2,816,803 for the years ended May 31, 2015 and 2014, 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. The gain recognized in the change in net assets related to the agreements was $1,791,934 for the year ended May 31, 2014. There was no gain recognized related to the agreements in 2015. The interest rate swap agreements were terminated as part of the issuance of the 2013 bonds.

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, 2015 and 2014, of $2,234,820 and $2,492,344, 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 consolidated 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 consolidated 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, 2015 and 2014, of $943,114 and $984,994, 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. The Plan is funded by the University through Healthcare Reimbursement Accounts (HRA) for each eligible post-Medicare retiree.

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

	2015	2014
Accumulated postretirement benefit obligation	$ (27,882,972)	$ (24,105,702)
Fair value of Plan assets	—	—
Funded status	$ (27,882,972)	$ (24,105,702)

Liabilities recognized in the consolidated statements of financial position:

	2015	2014
Accrued benefit liability	$ (27,882,972)	$ (24,105,702)

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

	2015	2014
Net loss	$ 9,036,628	$ 6,413,343
Prior service credit	(6,996,407)	(8,984,473)
	$ 2,040,221	$ (2,571,130)

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

	Pension Benefits	
	2015	2014
Amounts arising during the period		
Net loss	$ 3,059,141	$ 965,401
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	(435,856)	(350,764)
Net prior service credit	1,988,066	2,040,514

A reconciliation of the projected postretirement medical benefit obligation follows:

	Pension Benefits	
	2015	2014
Change in benefit obligation		
Obligation at June 1	$ 24,105,702	$ 22,279,239
Service cost	467,450	486,074
Interest cost	1,078,018	1,005,546
Participant contributions	63,033	42,259
Actuarial loss	3,059,141	965,401
Special termination benefits	166,992	—
Benefit payments	(1,057,364)	(672,817)
Obligation at May 31	$ 27,882,972	$ 24,105,702

Other significant balances and costs as of May 31 are:

	2015	2014
Net periodic benefit costs	$ 160,250	$ (198,130)
Employer contributions	994,331	630,558
Participant contributions	63,033	42,259
Benefits paid	1,057,364	672,817

Components of net periodic postretirement benefit cost:

	2015	2014
Service cost	$ 467,450	$ 486,074
Interest cost	1,078,018	1,005,546
Amortization of prior service credit	(1,988,066)	(2,040,514)
Amortization of net loss	435,856	350,764
Special termination benefit recognized	166,992	—
Net periodic postretirement benefit cost	$ 160,250	$ (198,130)

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 $646,156 and $1,988,066, respectively.

The University expects to contribute $1,097,586 to the Plan in fiscal year 2016. Shown below are the expected benefit payments for 2016 through 2020 and the five years thereafter:

2016	$ 1,097,586
2017	1,174,418
2018	1,160,263
2019	1,160,405
2020	1,127,538
2021 – 2025	6,910,091

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:

	2015	2014
Discount rate	4.350%	4.450%
Health care cost trend rate	7.300%	7.475%

For 2015, the health care cost trend rate used in measuring the accumulated postretirement benefit was assumed to be 7.300%. The rate was assumed to decrease gradually to 4.50% by the year 2031 and remain at that level thereafter. 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. 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	$ 26,217	$ (23,044)
Effect on accumulated postretirement benefit obligation	283,800	(253,007)

Note 11: Net Assets

Temporarily Restricted Net Assets

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

	2015	2014
Unexpended property and equipment funds	$ 2,558,560	$ 1,966,485
Scholarships	399,408	—
Instruction, academic support and research	3,832,977	3,038,192
Loan program funds	3,205,492	3,170,903
Trusts and charitable gift annuities, net of obligations	3,149,887	4,958,207
Accumulated earnings on endowed funds for		
Scholarships	44,725,870	47,775,375
Instruction, academic support and research	34,546,973	36,450,870
Pledges	364,894	—
	$ 92,784,061	$ 97,360,032

Permanently Restricted Net Assets

Permanently restricted net assets at May 31 are restricted to:

	2015	2014
Investment in perpetuity, the income of which is expendable to support		
Scholarships	$ 62,520,399	$ 61,556,519
Instruction and academic support	35,167,798	33,818,511
Any activity of the University	802,547	1,122,159
Trusts and charitable gift annuities, net of obligations	4,272,570	3,884,626
Total permanently restricted net assets	$ 102,763,314	$ 100,381,815

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:

	2015	2014
Purpose restrictions accomplished		
Instruction, academic support and research	$ 3,479,237	$ 1,442,881
Other	194,382	1,655
Total net assets released from restrictions for operations	$ 3,673,619	$ 1,444,536
Trusts and charitable gift annuities	$ 1,445,823	$ —
Total net assets released from restrictions – non-operating	$ 1,445,823	$ —
Property and equipment acquired and placed in service	$ 315,022	$ 2,622,070
Total satisfaction of capital acquisition restrictions	$ 315,022	$ 2,622,070

Note 12: Endowment

The University's endowment consists of approximately 580 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, 2015 and 2014, was:

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (2,777,473)	$ 79,460,956	$ 89,887,126	$ 166,570,609
Board-designated endowment funds	1,093,596	—	—	1,093,596
Total endowment funds	$ (1,683,877)	$ 79,460,956	$ 89,887,126	$ 167,664,205

	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

Changes in endowment net assets for the years ended May 31, 2015 and 2014, were:

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,469,452)	$ 84,361,138	$ 85,947,988	$ 168,839,674
Investment return				
Investment income	2,966,908	—	—	2,966,908
Net appreciation (depreciation), realized and unrealized	3,868,809	(3,064,136)	—	804,673
Transfer for underwater endowment assets	(205,702)	205,702	—	—
Total investment return	6,630,015	(2,858,434)	—	3,771,581
Contributions, current year	7,756	3,300	3,939,138	3,950,194
Appropriation of endowment assets for expenditure	(6,852,196)	(2,045,048)	—	(8,897,244)
Endowment net assets, end of year	$ (1,683,877)	$ 79,460,956	$ 89,887,126	$ 167,664,205

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as previously stated	$ (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 net 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

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

	2015	2014
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 89,887,126	$ 85,947,988
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 79,313,405	$ 84,211,361
Term endowments	147,551	149,777
	$ 79,460,956	$ 84,361,138

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 $2,777,473 and $2,571,771 at May 31, 2015 and 2014, 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 addition, for the fiscal year ended May 31, 2015, the Board authorized an additional expenditure of $2,000,000 to support operations. 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 7.5% 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. The contribution rate is determined annually by the Board of Trustees and currently remains at 7%. The University's contributions to the Plan were $2,218,632 and $2,345,650 for the years ended May 31, 2015 and 2014, respectively. The employees are 100% vested when funds are deposited to the Plan.

Note 14: Expenses

The consolidated statement of activities presents expenses by functional classification. Depreciation, interest and expenses associated with the operation and maintenance of plant facilities are allocated to each function based principally upon square footage of applicable facilities. The following table presents expenses on a natural account basis:

	2015	2014
Faculty salaries	$ 18,315,272	$ 19,879,643
Staff salaries	15,548,626	15,637,520
Student salaries	1,650,595	1,706,537
Part-time and other salaries	1,344,449	2,397,991
Fringe benefits	10,617,329	11,683,590
Total compensation and benefits	47,476,271	51,305,281
Travel	2,118,806	2,116,388
Auxiliary cost of sales	4,097,368	4,288,644
The Inn	1,858,263	1,709,197
Hospitality and events	871,961	1,083,189
Student programming	1,612,786	1,266,688
Library acquisitions	1,200,358	1,222,246
Professional and contracted services	10,664,530	11,551,774
Utilities and communications	3,442,057	3,527,967
Repairs and maintenance	1,564,872	1,563,682
Insurance and taxes	950,449	960,855
Supplies	1,350,380	1,671,929
Interest and debt related	1,962,429	2,816,803
Depreciation and amortization	7,313,572	7,302,162
General expenses	2,364,963	906,626
	$ 88,849,065	$ 93,293,431

Note 15: 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, 2015 and 2014:

	2015			
		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	$ 243,293	$ 243,293	$ —	$ —
Investments				
Money market funds	1,283,605	1,283,605	—	—
Common stocks	13,629,285	12,217,004	—	1,412,281
U.S. Government and agency obligations	879,485	—	879,485	—
Corporate debt securities	488,489	—	488,489	—
Equity mutual funds				
International markets	41,444,604	41,444,604	—	—
Large cap blend and growth	42,499,515	42,499,515	—	—
Small and mid-cap	5,163,412	5,163,412	—	—
Fixed income mutual funds	33,981,955	33,981,955	—	—
Alternative investments				
Common trust funds	8,318,320	—	8,318,320	—
Multi-strategy hedge funds	3,347,864	—	3,347,864	—
Private equity funds	19,628,108	—	—	19,628,108
Real estate investment funds	2,791,241	—	—	2,791,241
Land held for sale	99,697	—	—	99,697
Assets Held in Charitable Remainder Trusts	1,776,294	1,760,842	15,452	—
Beneficial Interest in Remainder Trusts	3,325,163	—	—	3,325,163
Beneficial Interest in Perpetual Trusts	7,963,274	—	—	7,963,274

	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

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.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated 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, 2013	$1,312,707	$18,040,655	$3,859,225	$ 61,245	$4,227,703	$7,609,780
Total realized and unrealized gains 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 realized and unrealized gains (losses) included in change in net assets	—	(72,568)	(150,615)	—	96,983	91,898
Purchases	66,500	5,572,308	17,773	28,027	—	—
Sales	—	(5,418,452)	(486,705)	—	(1,220,381)	—
Balance, May 31, 2015	$1,412,281	$19,628,108	$2,791,241	$ 99,697	$3,325,163	$7,963,274
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, 2015	$ —	$ (72,568)	$ (150,615)	$ —	$ 96,983	$ 91,898
May 31, 2014	$ —	$ 2,988,473	$ (161,645)	$ —	$ 220,858	$ 261,596

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, 2015	Valuation Technique	Unobservable Inputs	Range
Common Stocks	$ 1,412,281	Market comparables	Liquidity and marketability discounts	0% - 30%
Private Equity Funds	19,628,108	Net asset value or equivalent	Redeemability	0%
Real Estate Investment Funds	2,791,241	Net asset value or equivalent	Redeemability	0%
Land Held for Sale	99,697	Market comparables	Marketability discounts and adjustments	0% - 20%
Beneficial Interest in Remainder Trusts	3,325,163	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial Interest in Perpetual Trusts	7,963,274	Discounted cash flows	Discount rates Market return rates	2% - 8%

	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, 2015 and 2014:

		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, 2015				
Financial assets				
Cash and cash equivalents	$ 9,559,061	$ 9,559,061	$ —	$ —
Contributions receivable	717,095	—	—	717,095
Investments	173,798,873	136,833,388	13,034,158	23,931,327
Notes receivable	11,469,336	—	—	11,469,336
Assets held in charitable remainder trusts	1,776,294	1,760,842	15,452	—
Beneficial interest in remainder trusts	3,325,163	—	—	3,325,163
Beneficial interest in perpetual trusts	7,963,274	—	—	7,963,274
Financial liabilities				
Bonds	63,455,000	—	63,455,000	—
Annuities and trusts payable	3,177,934	—	—	3,177,934
U.S. Government refundable advances	10,871,971	—	—	10,871,971

	Carrying Amount	Fair Value Measurements Using: 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

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated 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 16: 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 32% and 17% of all contributions were received from two donors and one donor in 2015 and 2014, 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, 2015 and 2014, to be $1,034,776 and $1,046,481, respectively, and is included in the consolidated 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 consolidated statement of operating activities.

Through May 31, 2015, the University has spent $6.7 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 consolidated 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 17: 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 consolidated statements of financial position.

Note 18: Net Asset Reclassifications

The University previously classified some funds as permanently restricted. Upon further review of fund structure and documentation from the donors, it was determined that these funds are temporarily restricted. In 2015, the University has reclassified $2,062,899 related to these funds from permanently restricted net assets to temporarily restricted net assets.

Note 19: One-time Restructuring Expenses

In 2015, the University implemented some employee reductions, primarily through a one-time voluntary retirement option to certain eligible employees. These actions resulted in payments for severance and fringe benefits of $2,677,510. The University has recorded these expenses as non-operating due to its non-recurring nature.

Note 20: Subsequent Events

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