Ohio Northern University

Independent Auditor's Report and Consolidated Financial Statements

May 31, 2017 and 2016

BKD LLP
CPAs & Advisors

Ohio Northern University
May 31, 2017 and 2016

Contents

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Independent Auditor's Report

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), which comprise the consolidated statements of financial position as of May 31, 2017 and 2016, 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Northern University as of May 31, 2017 and 2016, and the results of their operations 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 September 26, 2017, 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 26, 2017

Ohio Northern University

Consolidated Statements of Financial Position
May 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 7,324,000	$ 8,956,204
Student accounts receivable, net of allowance of $1,370,528 in 2017 and $1,240,172 in 2016	1,300,457	1,524,688
Contributions receivable, net of allowance of $128,694 in 2017 and 2016	5,942,671	8,128,049
Other receivables	3,408,995	2,711,175
Cash equivalents and investments restricted for loans and long-lived asset purchases	3,920,884	4,413,794
Inventories	321,371	294,775
Prepaid expenses	1,176,259	1,331,216
Investments	165,374,571	155,629,290
Notes receivable, net of allowance of $51,000 in 2017 and $56,000 in 2016	10,992,722	10,840,162
Assets held in charitable remainder trusts	1,501,413	1,618,614
Property and equipment	129,738,458	132,859,021
Cash value of life insurance	802,315	858,075
Beneficial interest in remainder trusts	3,377,544	3,331,926
Beneficial interest in perpetual trusts	7,736,977	7,390,479
Total assets	$ 342,918,637	$ 339,887,468
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 3,821,310	$ 2,967,152
Accrued expenses	8,669,799	7,928,248
Deferred revenue and deposits	3,862,594	3,109,864
Bonds payable	56,073,805	59,344,593
Annuities and trusts payable	2,209,773	2,954,213
Postretirement medical benefits	13,147,549	13,461,881
Other	642,514	1,069,709
U.S. Government refundable advances	9,271,774	9,609,620
Total liabilities	97,699,118	100,445,280
Net Assets		
Unrestricted	49,399,546	52,836,189
Temporarily restricted	88,034,005	82,252,307
Permanently restricted	107,785,968	104,353,692
Total net assets	245,219,519	239,442,188
Total liabilities and net assets	$ 342,918,637	$ 339,887,468

Ohio Northern University
Consolidated Statement of Activities
Year Ended May 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Tuition and fees	$ 93,955,918	$ -	$ -	$ 93,955,918
Less scholarships and aid	(46,465,338)	-	-	(46,465,338)
Net tuition and fees	47,490,580	-	-	47,490,580
Gifts and bequests	2,491,764	1,139,140	-	3,630,904
Grants and contracts	3,260,717	53,246	-	3,313,963
Investment return designated for operations	10,813,156	2,533,389	-	13,346,545
Investment income from trusts held by others	151,751	1,002,291	-	1,154,042
Other investment income	39,684	-	-	39,684
Other	1,243,897	-	-	1,243,897
Auxiliary enterprises	20,096,558	-	-	20,096,558
Net assets released from restrictions for operating items	3,133,983	(3,133,983)	-	-
Total revenue, income and other support	88,722,090	1,594,083	-	90,316,173
Expenses				
Instruction	39,751,612	-	-	39,751,612
Sponsored programs	2,530,803	-	-	2,530,803
Academic support	3,632,030	-	-	3,632,030
Libraries	3,117,497	-	-	3,117,497
Student services	12,739,495	-	-	12,739,495
Auxiliary	20,406,609	-	-	20,406,609
Total educational activities	82,178,046	-	-	82,178,046
Institutional support	7,992,963	-	-	7,992,963
Fundraising	1,623,333	-	-	1,623,333
Total expenses	91,794,342	-	-	91,794,342
Change in Net Assets Before Other Revenue (Expenses)	(3,072,252)	1,594,083	-	(1,478,169)
Other Revenue (Expenses)				
The Inn remediation	84,406	-	-	84,406
Gifts restricted for endowment	7,100	191,922	2,763,361	2,962,383
Gifts restricted for acquisition of long-lived assets	-	3,882,535	-	3,882,535
Investment return less amounts designated for operations	313,384	3,665,312	-	3,978,696
Change in value of split-interest agreements	-	(58,534)	130,321	71,787
Actuarial adjustment to postretirement medical benefit liability	(4,218,416)	-	-	(4,218,416)
Change in asset retirement obligation	384,612	-	-	384,612
Change in beneficial interest in perpetual trusts	(56,445)	-	538,594	482,149
One-time restructuring expenses	(372,652)	-	-	(372,652)
Transfer for underwater endowment assets	2,042,167	(2,042,167)	-	-
Satisfaction of capital acquisition restrictions	1,451,453	(1,451,453)	-	-
Total other revenue (expenses)	(364,391)	4,187,615	3,432,276	7,255,500
Change in Net Assets	(3,436,643)	5,781,698	3,432,276	5,777,331
Net Assets, Beginning of Year	52,836,189	82,252,307	104,353,692	239,442,188
Net Assets, End of Year	$ 49,399,546	$ 88,034,005	$ 107,785,968	$ 245,219,519

Ohio Northern University

Consolidated Statement of Activities
Year Ended May 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Tuition and fees	$ 92,540,649	$ -	$ -	$ 92,540,649
Less scholarships and aid	(43,999,797)	-	-	(43,999,797)
Net tuition and fees	48,540,852	-	-	48,540,852
Gifts and bequests	6,342,844	561,241	-	6,904,085
Grants and contracts	1,718,835	2,513	-	1,721,348
Investment return designated for operations	9,798,369	3,125,943	-	12,924,312
Investment income from trusts held by others	577,745	29,835	-	607,580
Other investment income	59,378	-	-	59,378
Other	1,203,563	-	-	1,203,563
Auxiliary enterprises	20,745,700	-	-	20,745,700
Net assets released from restrictions for operating items	3,759,934	(3,759,934)	-	-
Total revenue, income and other support	92,747,220	(40,402)	-	92,706,818
Expenses				
Instruction	40,492,725	-	-	40,492,725
Sponsored programs	1,192,707	-	-	1,192,707
Academic support	3,692,781	-	-	3,692,781
Libraries	2,980,039	-	-	2,980,039
Student services	12,536,634	-	-	12,536,634
Auxiliary	19,781,444	-	-	19,781,444
Total educational activities	80,676,330	-	-	80,676,330
Institutional support	8,583,276	-	-	8,583,276
Fundraising	1,534,306	-	-	1,534,306
Total expenses	90,793,912	-	-	90,793,912
Change in Net Assets Before Other Revenue (Expenses)	1,953,308	(40,402)	-	1,912,906
Other Revenue (Expenses)				
The Inn remediation	563,740	-	-	563,740
Gifts restricted for endowment	-	13,245	2,494,083	2,507,328
Gifts restricted for acquisition of long-lived assets	-	4,403,693	-	4,403,693
Investment return less amounts designated for operations	(1,011,433)	(16,283,271)	-	(17,294,704)
Change in value of split-interest agreements	-	(375,707)	(532,126)	(907,833)
Actuarial adjustment to postretirement medical benefit liability	12,132,689	-	-	12,132,689
Change in beneficial interest in perpetual trusts	(1,724)	-	(371,579)	(373,303)
Transfer for underwater endowment assets	(1,791,159)	1,791,159	-	-
Satisfaction of capital acquisition restrictions	847,234	(847,234)	-	-
Total other revenue (expenses)	10,739,347	(11,298,115)	1,590,378	1,031,610
Change in Net Assets Before Effect of Reclassification of Net Assets	12,692,655	(11,338,517)	1,590,378	2,944,516
Reclassification of Net Assets	(806,763)	806,763	-	-
Change in Net Assets	11,885,892	(10,531,754)	1,590,378	2,944,516
Net Assets, Beginning of Year	40,950,297	92,784,061	102,763,314	236,497,672
Net Assets, End of Year	$ 52,836,189	$ 82,252,307	$ 104,353,692	$ 239,442,188

Ohio Northern University

Consolidated Statements of Cash Flows
Years Ended May 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	$ 5,777,331	$ 2,944,516
Items not requiring (providing) operating activities cash flows		
Depreciation	7,551,108	7,266,332
Amortization of bond origination costs	54,213	32,008
Change in allowance for doubtful accounts	371,211	245,855
Net realized and unrealized (gains) losses on investments	(14,287,146)	9,369,183
Loss on sale of property and equipment	275,991	89,109
Loss (gain) on beneficial interest in perpetual trust	(346,498)	572,795
Contributions restricted for long-term investment	(2,763,361)	(2,494,083)
Contributions restricted for acquisition of long-lived assets	(3,882,535)	(4,403,693)
Changes in		
Student accounts receivable	(99,880)	931,396
Contributions receivable	2,168,678	(7,427,654)
Other receivables	(697,820)	(882,139)
Inventories	(26,597)	151,261
Prepaid expenses and other assets	154,957	298,889
Beneficial interest in remainder trusts	71,583	150,917
Accounts payable	854,158	(485,448)
Accrued expenses	741,551	(327,867)
Deferred revenue and deposits	752,730	421,652
Annuities and trusts payable	(744,440)	(223,721)
Postretirement medical benefits	(314,332)	(14,421,091)
Other liabilities	(427,195)	4,149
Net cash used in operating activities	(4,816,293)	(8,187,634)
Investing Activities		
Purchase of property and equipment	(4,776,068)	(4,342,218)
Decrease in notes receivable	(182,960)	593,774
Purchases of investments	(57,632,799)	(85,180,352)
Proceeds from sales and maturities of investments	62,174,664	93,980,752
Proceeds from sale of fixed assets	69,532	69,532
and long-lived asset purchases	492,910	(40,183)
Increase in cash value of life insurance	55,760	(91,953)
Net cash provided by investing activities	201,039	4,989,352
Financing Activities		
Principal payments on bonds	(3,325,000)	(3,040,000)
Proceeds from contributions restricted for long-term investment	2,763,361	2,494,083
Proceeds from contributions restricted for acquisition of long-lived assets	3,882,535	4,403,693
Decrease in U.S. Government refundable advances	(337,846)	(1,262,351)
Net cash provided by financing activities	2,983,050	2,595,425
Net Decrease in Cash and Cash Equivalents	(1,632,204)	(602,857)
Cash and Cash Equivalents, Beginning of Year	8,956,204	9,559,061
Cash and Cash Equivalents, End of Year	$ 7,324,000	$ 8,956,204
Supplemental Cash Flows Information		
Interest paid	$ 1,841,172	$ 1,934,747

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 inter-organizational 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, 2017 and 2016, cash equivalents consisted primarily of money market funds.

At May 31, 2017, the University's cash accounts which are held at multiple financial institutions exceeded federally insured limits by approximately $8,200,000. 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 $1,135,000 and $1,186,000 at May 31, 2017 and 2016, 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 2017 or 2016.

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 2014. Accordingly, no provision for income taxes has been made. The University did engage in activities unrelated to its exempt purpose and incurred unrelated business income tax expense of $0 and $29 in the years ended May 31, 2017 and 2016. The University is also exempt from state income taxes.

Compensated Absences

Full-time employees, excluding faculty, earn 20 days of vacation each year, which is accrued on a per pay basis. The employee may accumulate a maximum of one time over their current monthly accrual on an annualized basis, in accordance with the leave policy. 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, 2017 and 2016, the University had an accrual of $1,071,779 and $1,032,818, 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements for the adoption of ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial. These reclassifications had no effect on earnings.

Note 2: Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	2017	2016
Less than one year	$ 2,046,949	$ 5,767,444
Due one to five years	3,926,130	2,554,351
Due after five years	187,694	8,000
	6,160,773	8,329,795
Less allowance for uncollectible contributions	(128,694)	(128,694)
Less present value discount	(89,408)	(73,052)
	$ 5,942,671	$ 8,128,049

Discount rates ranged from 0.26 percent to 3.10 percent for 2017 and 2016.

Ohio Northern University

Notes to Consolidated Financial Statements
May 31, 2017 and 2016

Note 3: Investments and Investment Return

Investments at May 31 consisted of the following:

	2017	2016
Cash and money market funds	$ 2,233,432	$ 929,844
Common stocks	6,263,142	8,520,520
U.S. Government and agency obligations	406,381	908,261
Corporate debt securities	666,368	292,475
Equity mutual funds		
International markets	40,897,550	38,293,208
Large cap blend and growth	41,327,738	39,439,405
Small and mid-cap	5,472,906	4,144,570
Fixed income mutual funds	32,555,731	31,298,228
Alternative investments		
Common trust funds	3,920,235	3,604,499
Multi-strategy hedge funds	3,915,073	3,465,663
Private equity funds	25,466,564	21,735,783
Real estate investment funds	2,188,206	2,843,419
Land held for sale	61,245	153,415
	$ 165,374,571	$ 155,629,290

The University's temporarily and permanently restricted net assets include various endowment funds established by donors. At May 31, 2017, the fair value of the assets of some of these funds was $2,526,465 less than the level required by donor stipulation or law.

Total investment return is comprised of the following:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Endowment income and gains distributed	$ 10,813,156	$ 2,533,389	$ -	$ 13,346,545
Total operating	10,813,156	2,533,389	-	13,346,545
Non-operating				
Interest and dividend income (net of expenses)	3,038,095	-	-	3,038,095
Net realized (losses) gains	-	2,130,764	-	2,130,764
Net unrealized (losses) gains	8,088,445	4,067,937	-	12,156,382
Investment return designated for current operations	(10,813,156)	(2,533,389)	-	(13,346,545)
Total non-operating	313,384	3,665,312	-	3,978,696
Total (loss) return on investments	$ 11,126,540	$ 6,198,701	$ -	$ 17,325,241

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Endowment income and gains distributed	$ 9,798,369	$ 3,125,943	$ -	$ 12,924,312
Total operating	9,798,369	3,125,943	-	12,924,312
Non-operating				
Interest and dividend income (net of expenses)	4,998,791	-	-	4,998,791
Net realized (losses) gains	-	3,396,353	-	3,396,353
Net unrealized (losses) gains	3,788,145	(16,553,681)	-	(12,765,536)
Investment return designated for current operations	(9,798,369)	(3,125,943)	-	(12,924,312)
Total non-operating	(1,011,433)	(16,283,271)	-	(17,294,704)
Total (loss) return on investments	$ 8,786,936	$ (13,157,328)	$ -	$ (4,370,392)

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

	2017	2016
Capital projects and debt service	$ 934,942	$ 933,113
Loan funds	2,985,942	3,480,681
Total	$ 3,920,884	$ 4,413,794

Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at May 31:

	May 31, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private common trust funds (A)	$ 3,920,235	$ -	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	3,915,073	-	Monthly-Quarterly	30-90 days
Private equity funds (C)	25,466,564	24,692,694	Nonredeemable	N/A
Real estate investment funds (D)	2,188,206	8,000,000	Nonredeemable	N/A

	May 31, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private common trust funds (A)	$ 3,604,499	$ -	Monthly-Quarterly	30-90 days
Multi-strategy hedge funds (B)	3,465,663	-	Monthly-Quarterly	30-90 days
Private equity funds (C)	21,735,783	19,917,406	Nonredeemable	N/A
Real estate investment funds (D)	2,843,419	8,000,000	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, 2017.

(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, 2017.

(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 $24,692,694 and $19,917,406 at May 31, 2017 and 2016, respectively. Subsequent to May 31, 2017, the University paid $1,365,122 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, 2017 and 2016. Pursuant to fund agreements, the University has committed to fund future capital calls on the one fund totaling $8,000,000 at May 31, 2017 and 2016. Subsequent to May 31, 2017, 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 $9,271,772 and $9,609,620 as of May 31, 2017 and 2016, 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 2.7 percent and 2.8 percent of total assets as of May 31, 2017 and 2016, 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:

	2017	2016
Student loans receivable		
Federal government programs	$ 8,822,548	$ 8,524,545
Institutional programs	2,221,175	2,371,617
Total student loans receivable	11,043,723	10,896,162
Less allowance for doubtful accounts		
Balance, beginning of year	(56,000)	(20,600)
Provision charged to income	5,000	(35,400)
Balance, end of year	(51,000)	(56,000)
Net loans receivable	$ 10,992,723	$ 10,840,162

Note 5: Property and Equipment

Property and equipment are summarized as follows at May 31:

	2017	2016
Land	$ 8,159,275	$ 8,159,275
Land improvements	8,459,046	8,118,799
Buildings	198,658,748	196,174,505
Equipment, furniture, fixtures and vehicles	18,623,539	21,493,462
Collections	1,864,029	1,864,029
Construction in progress	947,870	2,504,489
	236,712,507	238,314,559
Less accumulated depreciation	(106,974,049)	(105,455,538)
	$ 129,738,458	$ 132,859,021

The following construction commitments exist as of May 31:

	2017	2016
McIntosh Student Center renovation	$ -	$ 1,516,943
Heterick Library renovation	-	366,280
	$ -	$ 1,883,223

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 2.4 percent and 1.8 percent for 2017 and 2016, respectively, and applicable mortality tables. The estimated value of the expected future cash flows is $3,377,544 and $3,331,926 at May 31, 2017 and 2016, 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 $7,736,977 and $7,390,479, which represents the fair value of the trust assets at May 31, 2017 and 2016, respectively.

Note 7: Bonds Payable

Bonds payable consist of the following:

	2017	2016
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	$ 4,330,000	$ 4,510,000
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	14,290,000	14,885,000
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	21,055,000	21,935,000
2013 Economic Development Facilities Revenue Refunding Bonds, Series C, interest at fixed rate of 2.95%, maturing through May 2018, payable in annual installments ranging from $910,000 to $950,000	950,000	1,870,000
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	16,465,000	17,215,000
Total bonds payable	57,090,000	60,415,000
Less: Bond origination costs	(1,016,195)	(1,070,407)
Total bonds payable	$ 56,073,805	$ 59,344,593

In connection with the 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. The amount of bond origination costs associated with the Series 2013 bonds is $782,116 and $819,508 at May 31, 2017 and 2016, respectively.

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 amount of bond origination costs associated with the Series 2014 bonds is $234,079 and $250,899 at May 31, 2017 and 2016, respectively.

Aggregate annual principal payments required on bonds payable at May 31, 2017, are:

2018	$ 3,495,000
2019	3,500,000
2020	3,090,000
2021	3,195,000
2022	3,240,000
Thereafter	40,570,000
	$ 57,090,000

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, 2017 and 2016, the University is in compliance with these covenants.

Interest expense was $1,879,121 and $1,966,755 for the years ended May 31, 2017 and 2016, respectively.

Note 8: 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, 2017 and 2016, of $1,487,619 and $2,126,523, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2 percent to 10 percent 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, 2017 and 2016, of $722,154 and $827,690, respectively. The present value of the estimated future payments is calculated using discount rates ranging from 5 percent to 10 percent and applicable mortality tables.

Note 9: 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:

	2017	2016
Accumulated postretirement benefit obligation	$ (13,147,549)	$ (13,461,881)
Fair value of Plan assets	-	-
Funded status	$ (13,147,549)	$ (13,461,881)

Liabilities recognized in the consolidated statements of financial position:

	2017	2016
Accrued benefit liability	$ (13,147,549)	$ (13,461,881)

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

	2017	2016
Net loss	$ 6,717,776	$ 7,356,412
Prior service credit*	(12,279,845)	(17,274,067)
	$ (5,562,069)	$ (9,917,655)

* The prior service credit includes a plan amendment made in 2016. See the reconciliation of the projected postretirement medical obligation for more details.

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

	Pension Benefits	
	2017	2016
Amounts arising during the period		
Net (gain) loss	$ 37,430	$ (1,030,250)
New prior service cost	12,266	(13,529,713)
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	(676,066)	(649,966)
Net prior service credit	4,981,956	3,252,053

A reconciliation of the projected postretirement medical benefit obligation follows:

	Pension Benefits	
	2017	2016
Change in benefit obligation		
Obligation at June 1	$ 13,461,881	$ 27,882,972
Service cost	92,142	301,374
Interest cost	436,466	785,609
Participant contributions	47,230	46,690
Actuarial (gain) loss	37,430	(1,030,250)
Benefit payments	(939,866)	(994,801)
Plan amendments	12,266	(13,529,713)
Obligation at May 31	$ 13,147,549	$ 13,461,881

Other significant balances and costs as of May 31 are:

	2017	2016
Net periodic benefit costs	$ (3,777,282)	$ (1,515,104)
Employer contributions	892,636	948,111
Participant contributions	47,230	46,690
Benefits paid	(939,866)	(994,801)

Components of net periodic postretirement benefit cost:

	2017	2016
Service cost	$ 92,142	$ 301,374
Interest cost	436,466	785,609
Amortization of prior service credit	(4,981,956)	(3,252,053)
Amortization of net loss	676,066	649,966
Net periodic postretirement benefit cost	$ (3,777,282)	$ (1,515,104)

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 $679,625 and $676,066, respectively.

The University expects to contribute $859,964 to the Plan in fiscal year 2017. Shown below are the expected benefit payments for 2018 through 2022 and the five years thereafter:

2018	$ 859,964
2019	842,182
2020	818,456
2021	820,443
2022	820,540
2023 – 2027	4,095,966

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:

	2017	2016
Discount rate	3.99%	4.17%
Health care cost trend rate	5.90%	5.90%

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	$ 186	$ (180)
Effect on accumulated postretirement benefit obligation	-	-

Note 10: Net Assets

Temporarily Restricted Net Assets

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

	2017	2016
Unexpended property and equipment funds	$ 5,171,852	$ 7,048,048
Scholarships	176,808	146,996
Instruction, academic support and research	5,137,810	4,595,878
Loan program funds	4,101,437	3,205,528
Trusts and charitable gift annuities, net of obligations	2,955,264	3,024,907
Pledges	5,008,157	367,061
Accumulated earnings on endowed funds for		
Scholarships	36,122,256	35,682,778
Instruction, academic support and research	29,360,421	28,181,111
	$ 88,034,005	$ 82,252,307

Permanently Restricted Net Assets

Permanently restricted net assets at May 31 are restricted to:

	2017	2016
Investment in perpetuity, the income of which is expendable to support		
Scholarships	$ 65,208,172	$ 63,273,162
Instruction and academic support	37,697,977	36,384,660
Any activity of the University	807,837	754,209
Trusts and charitable gift annuities, net of obligations	4,071,982	3,941,661
Total permanently restricted net assets	$ 107,785,968	$ 104,353,692

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:

	2017	2016
Purpose restrictions accomplished		
Instruction, academic support and research	$ 2,834,137	$ 2,781,755
Other	299,846	978,179
Total net assets released from restrictions for operations	$ 3,133,983	$ 3,759,934
Property and equipment acquired and placed in service	$ 1,451,453	$ 847,234
Total satisfaction of capital acquisition restrictions	$ 1,451,453	$ 847,234

Note 11: Endowment

The University's endowment consists of approximately 600 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, 2017 and 2016, was:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,526,465)	$ 65,649,677	$ 94,883,511	$ 158,006,723
Board-designated endowment funds	4,018,520	-	-	4,018,520
Total endowment funds	$ 1,492,055	$ 65,649,677	$ 94,883,511	$ 162,025,243

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,568,632)	$ 64,024,826	$ 92,372,458	$ 151,828,652
Board-designated endowment funds	1,025,029	-	-	1,025,029
Total endowment funds	$ (3,543,603)	$ 64,024,826	$ 92,372,458	$ 152,853,681

Changes in endowment net assets for the years ended May 31, 2017 and 2016, were:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (3,543,603)	$ 64,024,826	$ 92,372,458	$ 152,853,681
Investment return				
Investment income	2,998,441	-	-	2,998,441
Net appreciation, realized and unrealized	8,081,422	6,193,844	-	14,275,266
Transfer for underwater endowment assets	2,042,167	(2,042,167)	-	-
Total investment return	13,122,030	4,151,677	-	17,273,707
Contributions, current year	2,726,784	6,563	2,511,053	5,244,400
Appropriation of endowment assets for expenditure	(10,813,156)	(2,533,389)	-	(13,346,545)
Endowment net assets, end of year	$ 1,492,055	$ 65,649,677	$ 94,883,511	$ 162,025,243

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,683,877)	$ 79,460,956	$ 89,887,126	$ 167,664,205
Investment return				
Investment income	4,962,838	-	-	4,962,838
Net appreciation (depreciation), realized and unrealized	4,813,373	(14,178,456)	-	(9,365,083)
Transfer for underwater endowment assets	(1,791,159)	1,791,159	-	-
Total investment return	7,985,052	(12,387,297)	-	(4,402,245)
Contributions, current year	7,756	22,945	2,485,332	2,516,033
Appropriation of endowment assets for expenditure	(9,852,534)	(3,071,778)	-	(12,924,312)
Endowment net assets, end of year	$ (3,543,603)	$ 64,024,826	$ 92,372,458	$ 152,853,681

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

	2017	2016
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 94,883,511	$ 92,372,458
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 65,476,341	$ 63,869,666
Term endowments	173,336	155,160
	$ 65,649,677	$ 64,024,826

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 $2,526,465 and $4,568,632 at May 31, 2017 and 2016, 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 percent of its endowment fund's average fair value over the prior 12 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. The Board authorized an additional expenditure to support scholarships and operations of $5,910,000 and $5,500,000 for the years ended May 31, 2017 and 2016, respectively. 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 percent 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 12: Employee Retirement Benefits

The University has a defined contribution plan. Retirement benefits are provided for employees through TIAA, 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 January 1, 2016, the University changed its plan from a mandatory plan to a matching plan and changed its contribution from 7 percent to 4 percent. The University matched a maximum additional contribution of up to 3 percent if the employee contributed to the Plan. Employees are no longer required to contribute to the Plan with this change. The University's contributions to the Plan were $2,302,264 and $2,242,734 for the years ended May 31, 2017 and 2016, respectively. The employees are 100 percent vested when funds are deposited to the Plan.

Note 13: 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:

	2017	2016
Faculty salaries	$ 19,274,897	$ 18,369,453
Staff salaries	16,099,355	15,764,920
Student salaries	1,871,124	1,734,628
Part-time and other salaries	1,813,111	1,611,344
Fringe benefits	8,251,647	10,161,088
Total compensation and benefits	47,310,134	47,641,433
Travel	2,885,002	2,481,964
Auxiliary cost of sales	4,314,745	4,141,097
The Inn	1,966,326	1,925,939
Hospitality and events	942,254	979,813
Student programming	1,868,448	1,513,077
Library acquisitions	1,137,487	1,130,820
Professional and contracted services	11,202,232	10,980,385
Utilities and communications	3,581,069	3,703,943
Repairs and maintenance	1,584,988	1,980,981
Insurance and taxes	901,873	945,754
Supplies	1,883,940	1,644,646
Interest and debt related	1,879,871	1,967,510
Depreciation	7,551,108	7,266,332
General expenses	2,784,865	2,490,218
	$ 91,794,342	$ 90,793,912

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 tables present 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, 2017 and 2016:

	2017			
		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	$ 266,624	$ 266,624	$ -	$ -
Investments				
Money market funds	1,966,808	1,966,808	-	-
Common stocks	6,283,142	4,524,721	-	1,758,421
U.S. Government and agency obligations	406,381	-	406,381	-
Corporate debt securities	666,368	-	666,368	-
Equity mutual funds				
International markets	40,897,550	40,897,550	-	-
Large cap blend and growth	41,327,738	41,327,738	-	-
Small and mid-cap	5,472,906	5,472,906	-	-
Fixed income mutual funds	32,555,731	32,555,731	-	-
Land held for sale	61,245	-	-	61,245
Alternative investments				
Common trust funds measured at net asset value (A)	3,920,235			
Multi-strategy hedge funds measured at net asset value (A)	3,915,073			
Private equity funds measured at net asset value (A)	25,466,564			
Real estate investment funds measured at net asset value (A)	2,188,206			
Assets Held in Charitable Remainder Trusts	1,501,413	1,391,231	78,445	31,737
Beneficial Interest in Remainder Trusts	3,377,544	-	-	3,377,544
Beneficial Interest in Perpetual Trusts	7,736,977	-	-	7,736,977

	2016			
		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	$ 266,908	$ 266,908	$ -	$ -
Investments				
Money market funds	662,936	662,936	-	-
Common stocks	8,520,520	6,782,099	-	1,738,421
U.S. Government and agency obligations	908,261	-	908,261	-
Corporate debt securities	292,475	-	292,475	-
Equity mutual funds				
International markets	38,293,208	38,293,208	-	-
Large cap blend and growth	39,439,405	39,439,405	-	-
Small and mid-cap	4,144,570	4,144,570	-	-
Fixed income mutual funds	31,298,228	31,298,228	-	-
Land held for sale	153,415	-	-	153,415
Alternative investments				
Common trust funds measured at net asset value (A)	3,604,499			
Multi-strategy hedge funds measured at net asset value (A)	3,465,663			
Private equity funds measured at net asset value (A)	21,735,783			
Real estate investment funds measured at net asset value (A)	2,843,419			
Assets Held in Charitable Remainder Trusts	1,618,614	1,536,972	81,642	-
Beneficial Interest in Remainder Trusts	3,331,926	-	-	3,331,926
Beneficial Interest in Perpetual Trusts	7,390,479	-	-	7,390,479

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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.

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	Land Held for Sale	Beneficial Interest in Remainder Trusts	Beneficial Interest in Perpetual Trusts
Balance, June 1, 2015	$ 1,412,281	$ 99,697	$ 3,325,163	$ 7,963,274
Total realized and unrealized gains (losses) included in change in net assets	-	-	6,763	(572,795)
Purchases	326,140	53,718	-	-
Sales	-	-	-	-
Balance, May 31, 2016	1,738,421	153,415	3,331,926	7,390,479
Total realized and unrealized gains included in change in net assets	-	-	45,618	346,498
Purchases	-	-	-	-
Sales	(2,150)	(92,170)	-	-
Balance, May 31, 2017	$ 1,736,271	$ 61,245	$ 3,377,544	$ 7,736,977
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, 2017	$ -	$ -	$ 45,618	$ 346,498
May 31, 2016	$ -	$ -	$ 6,763	$ (572,795)

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 tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

	Fair Value at May 31, 2017	Valuation Technique	Unobservable Inputs	Range
Common stocks	$ 1,736,271	Market comparables	Liquidity and marketability discounts	0% - 30%
Land held for sale	61,245	Market comparables	Marketability discounts and adjustments	0% - 20%
Beneficial interest in remainder trusts	3,377,544	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial interest in perpetual trusts	7,736,977	Discounted cash flows	Discount rates Market return rates	2% - 8%

	Fair Value at May 31, 2016	Valuation Technique	Unobservable Inputs	Range
Common stocks	$ 1,738,421	Market comparables	Liquidity and marketability discounts	0% - 30%
Land held for sale	153,415	Market comparables	Marketability discounts and adjustments	0% - 20%
Beneficial interest in remainder trusts	3,331,926	Discounted cash flows	Discount rates Market return rates	2% - 6%
Beneficial interest in perpetual trusts	7,390,479	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.

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.

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 41 percent and 32 percent of all contributions were received from three donors and one donor in 2017 and 2016, 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 to be $611,914 and $1,034,776 at May 31, 2017 and 2016, 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.

In November 2012, the University filed a lawsuit in Hancock County, Ohio seeking recovery from the general contractor and other associated parties. Through arbitration, the University recovered $613,000 in March 2014 and received an assignment of the architect's claims against two consulting engineering firms. The University subsequently joined these parties as defendants in the Hancock County litigation.

On January 23, 2017, the Ohio Court of Appeals 3rd District rendered a decision favorable to the University for the resolution of certain issues regarding the contractor's insurance coverage. The insurance company has appealed this decision to the Supreme Court of Ohio. The University and the contractor have filed memoranda of opposition to this appeal. No decision has yet been rendered by the Supreme Court of Ohio as to whether to consider the appeal.

During fiscal year 2016, the University received $300,000 in settlement of the claims against the consulting engineers and $1,000,000 toward resolution of its claims against the contractor. During fiscal year 2017, the University received $300,000 in settlement of the claims against an engineering firm. Due to the non-recurring nature, the University reflected this recovery as a non-operating item in the consolidated statement of operating activities.

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 consolidated statements of financial position.

Note 17: One-time Restructuring Expenses

In 2017, the University implemented some early retirement options to certain eligible employees. These actions resulted in payments for severance and fringe benefits of $372,652. The University has recorded these expenses as non-operating due to its non-recurring nature.

Note 18: 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.

In August 2017, the University received notification that it had been awarded a $67.2 million loan from the United States Department of Agriculture (USDA), Rural Development Community Facilities Program to support a variety of campus initiatives. The funds will be used to construct a new College of Engineering building, to relocate several existing University programs, to construct a building to house the Office of Information Technology and to refinance a portion of the University’s existing debt.