OHIO WESLEYAN UNIVERSITY
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2018 and 2017

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONTENTS

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Maloney
Maloney + Novotny LLC

Independent Auditors' Report

Board of Trustees
Ohio Wesleyan University
Delaware, Ohio

We have audited the accompanying consolidated financial statements of Ohio Wesleyan University and subsidiaries (a nonprofit college), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the June 30, 2018 and 2017 financial statements of OWU Fund, LP, described in Note 1.A. OWU Fund, LP represents 40% and 38% of consolidated total assets as of June 30, 2018 and 2017, respectively, and 64% and 75% of the consolidated net investment income for the years ended June 30, 2018 and 2017, respectively. This entity was audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Wesleyan University and subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maloney + Novotny LLC

Cleveland, Ohio
November 13, 2018

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 7,245,356	$ 11,363,776
Accounts receivable:		
Students, net	1,154,831	629,540
Grants	353,572	506,456
Other	1,154,017	611,690
Total accounts receivable	2,662,420	1,747,686
Pledges receivable, net	7,222,719	7,731,580
Student loans receivable, net	4,293,138	4,480,893
Inventories and prepaid expenses	1,559,799	1,012,323
Investments	247,834,206	233,570,556
Interests in trusts	3,013,525	2,855,010
Land, buildings and equipment, net	132,588,819	130,945,529
Construction in progress	488,052	3,263,037
Total assets	$406,908,034	$396,970,390

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 2,895,014	$ 3,060,541
Accrued compensation	5,061,606	4,056,810
Deferred income and deposits	3,282,171	3,856,262
Other accrued liabilities	1,770,194	1,875,765
Deferred tax liability	134,000	226,000
Notes payable	-	122,742
Bonds payable, net	22,491,986	24,718,076
Postretirement benefits other than pensions	6,603,352	7,719,000
Accrued pension liability	523,566	786,539
Annuities and unitrusts payable	3,722,887	3,589,224
Advances from federal government for student loans	4,009,545	3,952,707
Total liabilities	50,494,321	53,963,666
Net assets:		
Unrestricted	81,720,383	85,122,948
Temporarily restricted	83,033,238	75,114,429
Permanently restricted	185,621,852	176,489,177
Total net assets - University	350,375,473	336,726,554
Noncontrolling interest	6,038,240	6,280,170
Total net assets	356,413,713	343,006,724
Total liabilities and net assets	$406,908,034	$396,970,390

The accompanying notes are an integral part of these financial statements

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue, gains and other support:				
Tuition and fees	$ 67,551,012			$ 67,551,012
Less: University funded financial aid	(37,152,174)			(37,152,174)
Financial aid from outside sources	(6,861,556)			(6,861,556)
Net tuition and fees	23,537,282			23,537,282
Gifts, pledges and bequests	6,500,998	$ 3,957,580	$ 8,954,159	19,412,737
Other investment income	256,855	543	427	257,825
Investment return designated for current operations	6,613,421	7,878,870		14,492,291
Grants	1,155,366	802,593		1,957,959
Other income	5,169,696	244,473	26,622	5,440,791
Sales and services of auxiliary enterprises	17,323,466			17,323,466
Net assets released from restrictions	11,543,067	(11,543,067)		-
Total operating revenue, gains and other support	72,100,151	1,340,992	8,981,208	82,422,351
Operating expenses:				
Instruction	26,975,573			26,975,573
Student services	13,351,704			13,351,704
Academic support, including library	6,852,173			6,852,173
Auxiliary enterprises	13,376,129			13,376,129
Management and general	8,428,838			8,428,838
Fundraising	4,607,283			4,607,283
Public services	339,227			339,227
Research	347,658			347,658
Total operating expenses	74,278,585			74,278,585
Net (decrease) increase in net assets from operations	(2,178,434)	1,340,992	8,981,208	8,143,766
Nonoperating revenues and expenses:				
(Losses) gains on investments in excess of amount designated for current operations	(2,833,103)	6,553,633	17,137	3,737,667
Postretirement obligation adjustment	1,115,648			1,115,648
Pension-related charges other than net periodic pension cost	238,871			238,871
Deferred tax benefit	92,000			92,000
Actuarial adjustment of split-interest agreements		24,184	134,330	158,514
Change in net assets	(3,565,018)	7,918,809	9,132,675	13,486,466
Net assets, beginning of year	91,403,118	75,114,429	176,489,177	343,006,724
Net capital distribution - noncontrolling interest	(79,477)			(79,477)
Net assets, end of year	$ 87,758,623	$ 83,033,238	$185,621,852	$356,413,713

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue, gains and other support:				
Tuition and fees	$ 69,707,169			$ 69,707,169
Less: University funded financial aid	(37,701,440)			(37,701,440)
Financial aid from outside sources	(6,438,917)			(6,438,917)
Net tuition and fees	25,566,812			25,566,812
Gifts, pledges and bequests	6,728,327	$ 3,566,887	$ 8,752,965	19,048,179
Other investment income	256,423	27	233	256,683
Investment return designated for current operations	6,849,506	7,550,494		14,400,000
Grants	967,993	734,890		1,702,883
Other income	1,681,003	271,284	54,777	2,007,064
Sales and services of auxiliary enterprises	17,882,046			17,882,046
Net assets released from restrictions	12,238,289	(12,238,289)		-
Total operating revenue, gains and other support	72,170,399	(114,707)	8,807,975	80,863,667
Operating expenses:				
Instruction	25,921,922			25,921,922
Student services	12,130,673			12,130,673
Academic support, including library	6,740,753			6,740,753
Auxiliary enterprises	13,057,912			13,057,912
Management and general	7,357,144			7,357,144
Fundraising	4,266,055			4,266,055
Public services	290,771			290,771
Research	240,597			240,597
Total operating expenses	70,005,827			70,005,827
Net (decrease) increase in net assets from operations	2,164,572	(114,707)	8,807,975	10,857,840
Nonoperating revenues and expenses:				
(Losses) gains on investments in excess of amount designated for current operations	(2,781,184)	16,242,066	4,513	13,465,395
Postretirement obligation adjustment	2,617,000			2,617,000
Pension-related charges other than net periodic pension cost	355,786			355,786
Deferred tax benefit	99,000			99,000
Actuarial adjustment of split-interest agreements		50,748	22,746	73,494
Change in net assets	2,455,174	16,178,107	8,835,234	27,468,515
Net assets, beginning of year	89,299,039	58,936,322	167,653,943	315,889,304
Net capital distribution - noncontrolling interest	(351,095)			(351,095)
Net assets, end of year	$ 91,403,118	$ 75,114,429	$176,489,177	$343,006,724

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 13,486,466	$ 27,468,515
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,277,553	5,140,595
Amortization of bond issuance costs	33,520	33,524
(Gain) loss on disposal of asset	(3,650,886)	185,406
Realized and unrealized gains on investments	(18,229,958)	(27,865,395)
Contributions, net of pledges, for permanently restricted purposes	(8,954,159)	(8,752,965)
Income restricted for long-term investment	(27,049)	(55,010)
Change in deferred tax liability	(92,000)	(99,000)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(914,734)	(193,205)
Decrease in pledges receivable	508,861	28,668
Decrease (increase) in student loans receivable	187,755	(30,772)
Increase in inventories and prepaid expenses	(547,476)	(59,733)
Increase in interests in trusts	(158,515)	(73,494)
(Decrease) increase in accounts payable	(165,527)	157,824
Increase in accrued compensation	1,004,796	620,373
Decrease in deferred income and deposits	(574,091)	(79,891)
(Decrease) increase in other accrued liabilities	(105,571)	132,607
Decrease in postretirement benefits other than pensions	(1,115,648)	(2,617,000)
Decrease in accrued pension liability	(262,973)	(380,962)
Increase in annuities and unitrusts payable	133,663	446,732
Increase in advances from federal government for student loans	56,838	58,444
Net cash used in operating activities	(14,109,135)	(5,934,739)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land, buildings and equipment	4,625,000	-
Purchases of land, buildings and equipment	(5,119,972)	(6,088,574)
Sales of securities, net	3,966,308	6,996,566
Net cash provided by investing activities	3,471,336	907,992
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds payable	(2,259,610)	(2,554,649)
Payments on notes payable	(122,742)	(133,933)
Capital distributions to noncontrolling investors	(79,477)	(351,095)
Contributions, net of pledges, for permanently restricted purposes	8,954,159	8,752,965
Income restricted for long-term investment	27,049	55,010
Net cash provided by financing activities	6,519,379	5,768,298
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,118,420)	741,551
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,363,776	10,622,225
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,245,356	$ 11,363,776
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 616,463	$ 634,095

The accompanying notes are an integral part of these financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

A. Organization – Ohio Wesleyan University (the University) is an independent, liberal arts institution of higher education offering various bachelor degree academic programs. The University derives its income from student tuition, gifts and grants, investment income, operation of residence halls and various related activities. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America for such institutions.

OWU Fund, LP (the Partnership) is a limited partnership which commenced operations January 1, 2012, in which the University is the sole limited partner and is intended to serve as a single investor fund for the administrative convenience of the investor. The Partnership acts as an investment vehicle for a significant portion of the University's endowment. OWU Fund, LP was audited by other auditors as of and for the years ended June 30, 2018 and 2017.

O.W.U. Properties, Inc. is a wholly-owned for-profit subsidiary of the University (Note 6) and is consolidated for financial statement purposes with the University.

Stuyvesant Hall Holdings, Inc. is a wholly-owned subsidiary of the University and has a 60.00% ownership interest in Stuyvesant Hall, LLC and a 0.01% ownership interest in Stuyvesant Hall Master Tenant, LLC.

Stuyvesant Hall, LLC holds title to the Stuyvesant Hall building and the land on which it is built.

Stuyvesant Hall Master Tenant, LLC ownership is divided among three members which includes Stuyvesant Hall Holdings, Inc., who is the LLC managing member. Stuyvesant Hall Master Tenant, LLC has a 40% ownership interest in Stuyvesant Hall, LLC and leases space from Stuyvesant Hall, LLC.

The three Stuyvesant Hall entities were formed by the University to facilitate the rehabilitation of the Stuyvesant Hall building, a 245-bed historic building located in Delaware, Ohio on the campus of the University.

The Stuyvesant Hall building is listed on the National Register of Historic Places, making it eligible for tax credits under federal and state tax laws (Federal Historic Tax Credits and State of Ohio Historic Tax Credits) for qualified expenditures incurred in a substantial renovation of the building. Stuyvesant Hall, LLC filed and received approval from the National Parks Service on Parts 1 and 2 of its application for Federal Historic Tax Credits on qualified rehabilitation expenditures. The rehabilitation project was completed in September 2012.

In September 2012, Stuyvesant Hall Master Tenant, LLC entered into a master lease agreement with Stuyvesant Hall, LLC for leasing 100% of the building for a term of 32 years ending in 2044.

Stuyvesant Hall Master Tenant, LLC subleases the residential space to student residents on an annual basis and leases approximately 11,500 square feet of commercial space to the University under a six year lease.

B. Basis of Consolidation – These consolidated financial statements include the accounts of the University, OWU Fund, LP (OWU Fund), O.W.U. Properties, Inc. (OWU Properties), Stuyvesant Hall Holdings, Inc. (Holdings), Stuyvesant Hall, LLC (Stuyvesant Hall) and Stuyvesant Hall Master Tenant, LLC (Master Tenant). All significant intercompany activity was eliminated in consolidation.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

C. Basis of Presentation – The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Assets and liabilities presented in the consolidated statements of financial position are recorded in order of liquidity or nearness to conversion to cash. The University has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted based upon the existence or absence of donor-imposed restrictions as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted – Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, donors of these assets permit the University to use all or part of the income earned on these assets. Such assets primarily include the University's permanent endowment funds.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another is reported as reclassifications between the applicable classes of net assets. Changes in designations of net assets represent donor reclassifications of gifts received in prior years and, therefore, do not represent operating activity in the consolidated statements of activities.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at the time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

The University follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same period as received as temporarily restricted support.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets that the donor stipulates are to be used to acquire land, building and equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

The University has evaluated all subsequent events through November 13, 2018, which is the date the consolidated financial statements were available to be issued.

D. 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Concentrations of Credit Risk – Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, investments and student accounts and notes receivable. The University places its temporary cash investments with various financial institutions. Concentration of credit risk for investments is limited by the University's policy of asset allocation among different investment types. Concentration of credit risk for student accounts and notes receivable is limited due to the large base of accounts and geographic diversification.

F. Cash and Cash Equivalents – Cash and cash equivalents include amounts on deposit with various financial institutions, including interest-bearing demand deposit accounts, which, at times, may exceed federally insured amounts. Cash equivalents also include all U.S. Government obligations, commercial paper and corporate notes with original maturities of three months or less, except those held for long-term investment, which are classified with investments.

G. Student Accounts Receivable – The University has provided an allowance for uncollectible accounts receivable. Management estimates the allowance based on its review of delinquent accounts and an assessment of the University's historical evidence of collections. The allowance was $760,000 at June 30, 2018 and 2017.

H. Student Loans Receivable – The University participates with the U.S. Department of Education in the Federal Perkins Loan Program for the purpose of granting low interest loans (5% at June 30, 2018 and 2017) to students demonstrating financial need. After a student's graduation or withdrawal, Perkins loans are to be repaid over a maximum of ten years. The allowance for uncollectible student loans was $475,000 at June 30, 2018 and 2017. Under federal law, the authority for schools to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted through June 30, 2018.

Perkins funds are ultimately refundable to the U.S. Government to the extent funds are available from the program. Consequently, these funds are shown as a liability in the consolidated statements of financial position. The interest rates charged on substantially all Federal Perkins loans receivable are fixed by the U.S. Department of Education. The interest rates charged on University loans receivable are fixed by the University and do not fluctuate with market conditions.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

I. Inventories – The carrying value of inventories approximates cost, under the first-in, first-out method, not in excess of market.

J. Fair Value of Financial Instruments – The University has disclosed fair value information about financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flows or other evaluation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Due to their short-term nature, the carrying values of cash and cash equivalents, receivables, accounts payable and other accrued expenses reported in the accompanying consolidated statements of financial position approximate their fair value. The carrying value of the University's long-term debt is based on the University's current incremental borrowing rates for similar types of borrowing arrangements, which approximate fair value.

The carrying value of the University's investments approximates their fair value in accordance with the Fair Value Measurements standards, as defined by accounting principles generally accepted in the United States of America. These standards establish a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements:

Level 1 – Quoted market prices in active markets for identical assets and liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs in which little or no market data exists.

The asset's or liability's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used from 2017 to 2018.

The University has adopted Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under ASC 820. The University has retrospectively presented the 2017 disclosures. This included reclassifying commingled funds, hedge fund class and multi-asset class funds to investments measured at NAV.

The following tables set forth by level the University's assets and liabilities that are accounted for at a fair value on a recurring basis as of June 30, 2018 and 2017:

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Fixed income	$ 4,250,050	$ 2,500,000	$ -	$ 6,750,050
Other	623,261	-	11,097	634,358
U.S. Government securities	94,369	-	-	94,369
Common stocks	56,435,125	-	-	56,435,125
Exchange-traded funds				
Global equity	23,394,638	-	-	23,394,638
Real assets	3,637,215	-	-	3,637,215
U.S. equity	9,870,485	-	-	9,870,485
Fixed income	4,202,967	-	-	4,202,967
Mutual funds				
Global equity	10,960,374	-	-	10,960,374
Fixed income	12,462,383	-	-	12,462,383
Real assets	6,365,154	-	-	6,365,154
Money market mutual funds	469,726	-	-	469,726
Cash and cash equivalents	2,620,410	-	-	2,620,410
Total investments in the fair value hierarchy	$135,386,157	$ 2,500,000	$ 11,097	137,897,254
Investments measured at NAV[1]				109,936,952
Total investments				$247,834,206
Interests in trusts	$ -	$ -	$ 3,013,525	$ 3,013,525

[1] Restrictions on redemption:

Triennial redemptions, 90 day notice	$5.3M
Monthly redemptions, 30 day notice	$8.8M
Makena investment subject to one year notice on eligible amounts	$70M

Remaining investments do not have restrictions more than 30 days on their redemption.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Fixed income	$ 4,317,044	$ 2,500,000	$ -	$ 6,817,044
Other	609,152	-	11,097	620,249
U.S. Government securities	94,373	-	-	94,373
Common stocks	52,032,368	-	-	52,032,368
Exchange-traded funds				
Global equity	18,654,260	-	-	18,654,260
Real assets	3,129,991	-	-	3,129,991
U.S. equity	10,747,038	-	-	10,747,038
Fixed income	4,201,603	-	-	4,201,603
Mutual funds				
Global equity	10,401,321	-	-	10,401,321
Fixed income	19,088,559	-	-	19,088,559
Real assets	6,578,111	-	-	6,578,111
Derivative investment warrant	203,160	-	-	203,160
Money market mutual funds	986,475	-	-	986,475
Cash and cash equivalents	2,055,403	-	-	2,055,403
Total investments in the fair value hierarchy	$133,098,858	$ 2,500,000	$ 11,097	135,609,955
Investments measured at NAV[2]				97,960,601
Total investments				$233,570,556
Interests in trusts	$ -	$ -	$ 2,855,010	$ 2,855,010

[2] Restrictions on redemption:

Triennial redemptions, 90 day notice	$5.1M
Monthly redemptions, 30 day notice	$6.5M
Makena investment subject to one year notice on eligible amounts	$67M

Remaining investments do not have restrictions more than 30 days on their redemption.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

Investments – Since January 1, 2012, the University has invested in securities primarily through the OWU Fund and Makena Capital Management (Makena). The University, through the OWU Fund, invests in cash and cash equivalents, common stocks, mutual funds, fixed income and other securities with quoted prices in active markets that are considered to be Level 1 inputs. Any investments with underlying holdings classified as Level 1 but legally structured with limited redemption rights (most limited partnerships and master trusts) have been valued using NAV. In addition, the University has a percentage of its fixed income investments in alternative investments that are valued at Level 2 and Level 3. Level 2 alternative investment inputs include quoted prices for similar assets in active markets and inputs that are derived principally from or corroborated by observable market data. A portion of the University's investments is valued at Level 3 because of unobservable inputs and use of significant management judgment. This includes real assets which are based on valuations provided by external parties.

The University's investments with OWU Fund - commingled funds, hedge funds, private equity funds and Makena - multi-asset class portfolio are valued using NAV as a practical expedient.

Investments measured at NAV:

OWU Fund Commingled Funds and Hedge Funds – Commingled funds consist of assets from multiple accounts that are pooled together to create economies of scale. Hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). Liquidity of individual hedge funds varies based on various factors and may include "gates," "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. The hedge fund investments in Underlying Funds are available for redemption on a specified basis after specified lock-up periods as defined in each Underlying Fund's governing documents. For the purposes of these consolidated financial statements, the next available redemption dates provided are those with no associated fees. In certain investments, earlier redemption is available with accompanying early redemption fees.

OWU Fund Private Equity Funds – Private equity funds are structured as closed-end, commitment-based investment funds where the Partnership commits a specified amount of capital upon inception of the fund (i.e., committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit commitments by new or existing investors. The Partnership may invest in secondary fund of funds, which are Underlying Funds that purchase interests in other funds on the secondary market. The General Partner generally uses the capital balance reported by the Underlying Fund's manager as the primary input to its valuation; however, adjustments to the reported capital balance may be made based on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, and any restrictions or illiquidity on such interests and the fair value of such fund's investment portfolio or other assets and liabilities.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

J. Fair Value of Financial Instruments (Continued)

Makena Multi-Class Portfolio – The Feeder Funds record their investments in the Master Funds on the basis of net asset value. The fair values of the Feeder Funds' investments in the Master Funds have been estimated by the General Partner in the absence of a readily determinable market value for such investments. These fair values are based upon the Feeder Funds' proportionate interests in the partners' capital of the respective Master Funds. The performance of the Feeder Funds is directly affected by the performance of the Master Funds. The net increase or decrease in partners' capital resulting from operations of the Master Funds is allocated pro rata among the Feeder Fund investors in each Master Fund. Consequently, each of the Feeder Funds records its proportionate share of the net increase or decrease in the Master Funds' capital resulting from operations as allocated from the Master Funds. Partners are permitted to withdraw up to 5% of their interest per annum as their "Annual Distribution," subject to notification on or before May 1 of the year in which the Annual Distribution is to be withdrawn. In addition to the Annual Distribution, partners are entitled to withdraw all or any of their partnership interest greater than 5%, subject to a one-year notice requirement. However, this withdrawal may be limited by the partner's indirect prorated portion of the Master Funds' special investments and the partner's indirect prorated portion of the Master Funds' Remaining Obligations to such Special Investments, as defined in the Agreements, referred to as "Reserves."

Interests in trusts – Interests in trusts include contributions receivable from lead and remainder trusts and are recorded at the present value of the projected net future cash flows to be received, based on current market interest rates. This type of asset has no readily determinable exit price due to legal constraints and, therefore, is considered to be a Level 3 input.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	2018				
	Beginning Balance	Additions/ Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Other	$ 11,097	$ -	$ -	$ -	$ 11,097
Interests in trusts	2,855,010	-	-	158,515	3,013,525

	2017				
	Beginning Balance	Additions/ Purchases	Distributions	Realized and Unrealized Gains	Ending Balance
Fixed income	$ 417,718	$ -	$ (418,348)	$ 630	$ -
Other	11,097	-	-	-	11,097
Private equity fund class:					
Private natural resources	929,944	-	(929,944)	-	-
Interests in trusts	2,781,516	-	-	73,494	2,855,010

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

K. Investments – Investments are carried at fair market value. Investments in equity securities with readily determinable fair values and certain debt securities are recorded at fair value based on quoted market prices. Alternative investments are recorded based on estimated fair values. Methods for determining estimated fair values include discounted cash flows and estimates provided by fund trustees and general partners. The estimated fair value of certain of these investments is based on valuations provided by external investment managers, adjusted for cash receipts, disbursements and significant known changes in market values of publicly held securities held in the portfolio. The University considers the carrying values of these investments to be a reasonable estimate of fair value. Because these investments are not readily marketable and may be subject to withdrawal restrictions, their estimated value is subject to uncertainty and, therefore, may differ from the values that would have been used had a ready market for such investments existed.

Alternative investments include certain interests in international equities, hedge/absolute return, venture capital funds and real estate investment trusts. The University invests in limited partnerships and commingled vehicles, some of which employ traditional strategies (long only) in readily marketable securities (liquid equities or bonds traded on exchanges) and others of which employ less traditional strategies (long and short equity or fixed income and other hedging strategies) that may include the use of options, futures and other derivative instruments.

A portion of the University's investments is measured at net asset value as a practical expedient for fair value. These investments include hedge funds and public equities structured within limited partnerships and/or off-shore funds which are based on valuations provided by external investment managers and the managers' third party administrators. The fair values of the investments have been estimated using the net asset value of the University's ownership in the capital. The redemption terms vary based on the investment funds. These entities may also have the ability to impose gates, lockups and other restrictions on an investor's ability to readily redeem out of their investment interest in the funds.

Realized gains and losses represent the difference between the proceeds on sale of investments and their cost when acquired or fair value when donated. Investment return includes interest, dividends and both realized and unrealized gains and losses. In those cases where a donor has placed restrictions on the use of net appreciation, such appreciation is reported as part of either temporarily restricted or permanently restricted net assets based on donor restrictions.

The University's endowment funds consist of assets which are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains accumulated by these funds may be used to support operations unless temporarily or permanently restricted by the donor or by law.

The University holds investment securities which are exposed to various risks including 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 University's investment account balances and the amounts reported in the consolidated statements of financial position.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

L. Land, Buildings, Equipment and Depreciation – The carrying value of land, buildings, equipment and other properties is stated at cost or appraised value at date of receipt as gifts. The University capitalizes additions and major replacements of plant and equipment while repairs are expensed. The University provides for depreciation on the straight-line method over the estimated useful lives summarized in the following table:

Land improvements	15 years
Buildings and building improvements	10-100 years
Equipment	5-10 years
Vehicles and office equipment	3-10 years

M. Bond Issue Costs – Bond issue costs are amortized on a straight-line basis over the life of the bonds. Unamortized bond issuance costs are a direct reduction from bonds payable in the consolidated statements of financial position.

N. Annuities and Unitrusts – The University's split interest agreements with donors consist of irrevocable charitable lead and remainder trusts, charitable gift annuities and life income contracts for which the University is either the remainder beneficiary or one of several remainder beneficiaries. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for split-interest agreements are recognized at the dates the agreements are established. Revenues are recorded at fair value, net of the present value of the estimated future payments to be made to the beneficiaries. The present value of payments to beneficiaries under split interest agreements has been calculated using actuarial estimates of life expectancies and discount rates ranging from 1.2% to 9.2% at June 30, 2018 and 2017.

Assets neither in the possession nor under the control of the University and to which the University has no ultimate claim on the corpus have not been included in the consolidated financial statements. However, pursuant to donors' wishes, income derived from these resources has been included as additions to temporarily restricted net assets in the consolidated statements of activities, as it is received.

O. Deferred Income and Deposits – Deferred income and deposits represent cash received from students for the following fiscal year but not earned, unearned grant revenue and other deposits.

P. Self Insurance – The University has elected to act as a self-insurer for certain costs related to employee health benefit programs. Costs resulting from non-insured losses are charged to expense when incurred, and the University has an established reserve for claims incurred but not yet paid. The University has insurance coverage which limits its exposure for individual claims and an aggregate stop loss exposure.

Q. Art Collections – The University maintains a collection of artwork in its Ross Art Museum. Due to the difficulty in establishing a value for collection pieces donated to the University, these assets are not recorded in the consolidated financial statements. Collection purchases are expensed as purchased. The University provides a clean, secure and stable environment for its permanent collections. The artwork is given reasonable care towards its preservation.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

R. Federal Income Tax – The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The University recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the University, the continued tax-exempt status of bonds issued by the University and various positions related to potential sources of unrelated taxable income. The University believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

Stuyvesant Hall and Master Tenant are organized as limited liability companies and are taxed as partnerships for federal income tax purposes. Accordingly, all profits and losses of the companies are recognized by each member on their respective tax returns. Holdings was organized as a C Corporation pursuant to the provisions of the Internal Revenue Code.

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting and operating loss and tax credit carry forwards. The primary components of temporary differences which give rise to the net deferred tax liability relate to depreciation and the timing of recognition of certain income items. A benefit for deferred federal income taxes of $92,000 and $99,000 was necessary for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, the University's income tax years from 2014 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

S. Conditional Asset Retirement Obligations – The University is required to recognize a liability for a conditional asset retirement obligation. Management has considered its legal obligations to perform an asset retirement analysis on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the University may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2018 and 2017.

T. Reclassifications – Certain reclassifications of 2017 amounts have been made to conform to the 2018 presentation. Temporarily restricted investment return designated for current operations for the year ended June 30, 2017 was reduced by $2,810,553 and unrestricted investment return designated for current operations was correspondingly increased due to reclassification of endowment and quasi-endowment earnings without restrictions. This change is reflected primarily as a decrease to general university operations under temporarily restricted net assets in Note 9.

Note 2. Investments

The University pools certain assets of permanent endowment, quasi-endowment, annuity and life income funds on a market value basis. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the beginning of the calendar quarter within which the transaction takes place, except for assets which are separately invested due to specific donor restrictions.

Note 2. Investments (Continued)

During the year ended June 30, 2012, the University transitioned a significant portion of its investments to the OWU Fund and Makena. The University continues to set investment policy, allows asset allocation ranges and monitors performance. The University has delegated the authority for investment decisions of the OWU Fund to Cambridge and Associates which includes asset allocation and manager selection. In addition, the University has made an investment in Makena, a multi-asset class manager with a 2-year lock up. The University has redeemed holdings from other managers and placed those funds and transferred other investments into these investment vehicles.

The composition of investments is set forth in the following table:

	June 30	
	2018	2017
Fixed income	$ 6,750,050	$ 6,817,044
Other	634,358	620,249
U.S. Government securities	94,369	94,373
Common stocks	56,435,125	52,032,368
Exchange-traded funds		
Global equity	23,394,638	18,654,260
Real assets	3,637,215	3,129,991
U.S. equity	9,870,485	10,747,038
Fixed income	4,202,967	4,201,603
Mutual funds		
Global equity	10,960,374	10,401,321
Fixed income	12,462,383	19,088,559
Real assets	6,365,154	6,578,111
Commingled funds		
Real assets	3,924,492	2,166,789
Global equity	11,111,563	10,418,297
Derivative investment		
Warrant	-	203,160
Hedge fund class		
Global equity	5,272,575	5,111,960
Absolute return/credit	48,080	343,440
Private equity fund class		
Global venture capital/private	7,919,591	1,294,594
Hybrid fund of funds	391,648	505,065
Real assets	2,739,012	2,628,467
U.S. private equity	3,517,598	3,103,065
U.S. venture capital	5,222,098	5,523,637
Money market mutual funds	469,726	986,475
Multi-asset class	69,790,295	66,865,287
Cash and cash equivalents	2,620,410	2,055,403
Total investments	$247,834,206	$233,570,556

Note 2. Investments (Continued)

At June 30, 2018, the University has committed to invest additional funds in limited partnership investments in the amount of approximately $14,281,000, at the direction of the general partners. Investment expenses were $1,476,000 and $1,398,000 for the years ended June 30, 2018 and 2017, respectively, and is included in investment income.

The composition of investment return is as follows:

	Years Ended June 30 2018	2017
Investment income (interest and dividends)	$ 257,825	$ 256,683
Realized and unrealized gains on investments	18,229,958	27,865,395
Total investment return	18,487,783	28,122,078
Investment return designated for current operations	(14,750,116)	(14,656,683)
Non-operating investment return	$ 3,737,667	$ 13,465,395

Note 3. Pledges Receivable

As of June 30, 2018 and 2017, the University had received unconditional promises totaling $7,946,159 and $8,490,385, respectively, on which management has recorded an allowance for uncollectible promises of $330,046 and $295,362, respectively. The amounts are recorded at the present value of future cash flows based on a discount rate of 3% for June 30, 2018 and 2017. The discount is $393,394 and $463,443 at June 30, 2018 and 2017, respectively. The pledges receivable are due as follows:

June 30, 2018	Temporarily Restricted Plant	Temporarily Restricted Other	Permanently Restricted	Total
Less than one year	$ 1,167,893	$ 419,798	$ 79,792	$ 1,667,483
One to five years	1,089,771	1,480,350	2,629,187	5,199,308
More than five years	152,525	-	203,403	355,928
	$ 2,410,189	$ 1,900,148	$ 2,912,382	$ 7,222,719

June 30, 2017	Temporarily Restricted Plant	Temporarily Restricted Other	Permanently Restricted	Total
Less than one year	$ 1,112,306	$ 141,125	$ 302,571	$ 1,556,002
One to five years	865,937	1,105,464	3,925,847	5,897,248
More than five years	157,608	-	120,722	278,330
	$ 2,135,851	$ 1,246,589	$ 4,349,140	$ 7,731,580

Note 3. Pledges Receivable (Continued)

At June 30, 2018 and 2017, the University had also been notified of revocable pledges, bequests and other indications of intentions to give. These potential contributions have not been substantiated by written promises to the University. The University's policy is not to record these intentions to give as revenue until they are reduced to writing or are collected.

Note 4. Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2018 and 2017 consist of the following:

	June 30	
	2018	2017
Grounds and land improvements	$ 13,045,837	$ 11,907,264
Buildings and building improvements	171,003,822	166,620,014
Equipment	17,907,792	17,247,170
Vehicles and office equipment	9,498,212	9,372,388
Less accumulated depreciation	(78,866,844)	(74,201,307)
	$132,588,819	$130,945,529

Depreciation expense totaled $5,277,553 and $5,140,595 for the years ended June 30, 2018 and 2017, respectively.

Note 5. Pension Plans and Other Postretirement Benefit Plans

The University maintains a defined contribution pension plan, administered by TIAA-CREF, which covers the majority of its faculty and administrative personnel. All costs of this plan, $2,791,549 and $2,750,467 for the years ended June 30, 2018 and 2017, respectively, are funded and reflected as expenditures in the year earned, and no past service costs exist.

The University also maintains a non-contributory defined benefit pension plan, which covered the majority of the University's hourly and certain administrative personnel, through June 30, 1998. This defined benefit plan provides pension benefits that are based upon the employee's length of service with the University. The University's funding policy is to contribute annually the minimum amount required by applicable regulations.

Effective July 1, 1998, the University froze all benefits in the defined benefit pension plan and transferred coverage for all employees to the defined contribution pension plan.

In addition to the University's defined contribution and defined benefit retirement plans, the University has a defined benefit postretirement plan. The plan provides certain health care and life insurance benefits for retired employees who began employment with the University prior to September 1, 1999. The health care plan is contributory. Prior to January 1, 2016, the University made contributions to this plan equal to benefits paid. Effective January 1, 2016, the plan was changed whereby the University contributes a monthly stipend of $100 for all covered participants.

Note 5. Pension Plans and Other Postretirement Benefit Plans (Continued)

The various components of these plans, which are included in the University's consolidated financial statements, are as follows:

	Pension Plan June 30		Postretirement Benefit Plan June 30	
	2018	2017	2018	2017
Net Periodic Benefit Cost				
Service cost	$ -	$ -	$ 59,457	$ 57,868
Interest cost	102,152	100,001	270,632	277,581
Return on plan assets	(127,050)	(123,282)	-	-
Prior service cost	-	-	(2,941,180)	(2,951,087)
Amortization of loss	118,404	187,899	569,063	812,263
Net periodic benefit cost	$ 93,506	$ 164,618	$ (2,042,028)	$ (1,803,375)

The pension plan has $421,598 of unrecognized actuarial loss at June 30, 2018. The estimated amortization of actuarial loss is $50,309 in 2019.

The postretirement benefit plan has amounts unrecognized in net periodic benefit cost for prior service credit of $8,056,804 and a net actuarial loss of $1,936,721 at June 30, 2018. The estimated amortization of prior service cost and actuarial loss is $2,930,008 and $313,605, respectively, in 2019.

	Pension Plan June 30		Postretirement Benefit Plan June 30	
	2018	2017	2018	2017
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 2,978,707	$ 3,290,263	$ 7,719,000	$ 10,336,000
Service cost	-	-	59,457	57,868
Interest cost	102,152	100,001	270,632	277,581
Actual distributions	(225,614)	(147,922)	-	-
Actuarial gain	(229,034)	(263,635)	(952,107)	(2,509,311)
Net contributions (employer)	-	-	(493,630)	(443,138)
Change in plan provisions	-	-	-	-
Benefit obligation at end of year	2,626,211	2,978,707	6,603,352	7,719,000
Plan assets	2,102,645	2,192,168	-	-
Funded status	$ (523,566)	$ (786,539)	$ (6,603,352)	$ (7,719,000)

Note 5. Pension Plans and Other Postretirement Benefit Plans (Continued)

	Pension Plan June 30		Postretirement Benefit Plan June 30	
	2018	2017	2018	2017
Actuarial Assumptions				
Weighted average discount rate:				
Expense	3.50%	3.25%	3.65%	3.35%
Benefit obligation (at year end)	4.00%	3.50%	3.85%	3.65%
Expected rate of return on assets	6.00%	6.00%	N/A	N/A
Medical trend:				
For next year (pre 65/post 65)	N/A	N/A	8.5%/N/A	9.0%/N/A
Ultimate trend rate	N/A	N/A	5.00%	4.50%
Year reached	N/A	N/A	2028	2026

Under the postretirement benefit plan, if the medical trend rates were to increase by 1% for each year, the benefit obligation as of June 30, 2018 would also increase by $140,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2018 would increase by $9,000. If the medical trend rates were to decrease by 1% for each year, the benefit obligation as of June 30, 2018 would also decrease by $131,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2018 would decrease by $8,000.

Pension Plan Assets

The University's weighted average asset allocations at the measurement date and the target asset allocations by category are as follows:

	2018 Actual	2017 Actual	Target
Asset Category			
Equity securities	54.2 %	54.7 %	50-70 %
Debt securities	44.8	43.5	30-50
Cash equivalents	1.0	1.8	0-15
Total	100.0 %	100.0 %	100.0 %

Note 5. Pension Plans and Other Postretirement Benefit Plans (Continued)

Pension Plan Assets (Continued)

The pension plan's investment policy reflects the long-term nature of the plan's funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a long-term goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. All equity investments are made within the guidelines of quality, marketability and diversification mandated by the Employee Retirement Income Security Act and other relevant statutes. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for that portfolio. Assets invested in fixed income securities and pooled fixed income portfolios are managed actively to pursue opportunities presented by changes in interest rates, credit ratings or maturity premiums. The expected long-term rate of return on pension plan assets was developed by the University, in conjunction with the plan actuary, and is based on the past return of the plan investments.

Pension Plan Contributions

There are no expected contributions to the pension plan for the year ended June 30, 2019.

Estimated Future Benefit Payments

Future benefit payments, which reflect expected future service, as appropriate, during the next five fiscal years, and in the aggregate for the five fiscal years thereafter, are:

Fiscal Year Ended June 30	Pension Benefits	Other Benefits
2019	$ 155,344	$ 592,000
2020	169,097	611,000
2021	174,506	635,000
2022	172,968	564,000
2023	171,581	552,000
2024 - 2028	883,364	2,418,000

The University's pension plan assets at June 30, 2018 and 2017 are all Level 1 assets. The fair value, by asset category, is as follows:

	2018	2017
Equity securities	$1,139,363	$1,199,189
Debt securities	942,950	954,075
Cash equivalents	20,332	38,904
	$2,102,645	$2,192,168

In addition to the retirement plans described above, the University maintains an unfunded defined benefit pension plan for former employees that remain eligible for benefits earned prior to 1952 (the termination date of the plan). The future unfunded costs related to this plan are expected to approximate $36,000 next year, with declining unfunded costs thereafter.

Note 6. Investment in OWU Properties

The University currently owns all the stock in its taxable subsidiary, OWU Properties. OWU Properties is the general partner in the Austin Manor Limited Partnership (Austin Manor) and owns 1% of the partnership units of Austin Manor. The University also owns a 2% interest in Austin Manor, directly. Certain limited partners of Austin Manor are also trustees of the University. Austin Manor was formed to finance the renovation of a University owned residence hall into an apartment complex. As part of the renovation, the University transferred ownership of the residence hall and the related land to OWU Properties.

The University has consolidated the assets and operations of OWU Properties into its financial statements. The assets and operations of OWU Properties were immaterial to the University for the years ended June 30, 2018 and 2017.

Under terms of the Austin Manor financing agreement, the University has guaranteed 42.415% of a $2,392,787 first mortgage loan ($43,300 and $216,499 outstanding at June 30, 2018 and 2017, respectively).

The University has also loaned approximately $5,006,000 to Austin Manor. The first loan of $650,000 was borrowed from the University's endowment funds and is secured by a third mortgage. The second loan of approximately $4,356,000 was borrowed from the University's current funds and is unsecured. These loans bear interest at the rate of 8%. Interest payments are limited to 50% of Austin Manor's cash flows after all other debt service and operating expenses are paid. At June 30, 2018, the unaudited accumulated partnership deficit of Austin Manor, including depreciation and amortization costs of $3,037,839, approximated $7,855,535. For the year ended June 30, 2018, Austin Manor generated net income, determined by the cash basis of accounting, of approximately $87,774. No interest was paid in 2018 and 2017.

The University has also loaned OWU Properties $140,000 to fund a required special distribution to the partners of Austin Manor. The unsecured loan bears interest at a rate of 8%.

Prior to 2005, the University determined that the loans to Austin Manor and OWU Properties were impaired loans and they remain uncollectible as of June 30, 2018. Interest income is recognized on the loans and is fully reserved. The recorded allowance for doubtful accounts associated with the Austin Manor and OWU Properties loans and related accrued interest is $8,114,002 at June 30, 2018, bringing the net carrying value to $-0-.

In August 2018, the Austin Manor property was sold to an investor netting approximately $1.4 million.

Note 7. Notes Payable

Under an unsecured line of credit arrangement with a bank, the University may borrow up to $6,000,000 at the London Interbank Offered Rate (LIBOR) interest rate (2.09% at June 30, 2018) plus 1.5% to fund cyclical working capital requirements. The line of credit arrangement expires in March 2019. As of June 30, 2018, there was $-0- outstanding on this line of credit ($-0- outstanding as of June 30, 2017). This line of credit agreement requires the maintenance of certain financial ratios and restricts the University's ability to pledge or sell certain assets and consolidate with or acquire assets of other entities. Interest expense for the line of credit for the years ended June 30, 2018 and 2017 was $-0-.

Note 7. Notes Payable (Continued)

In May 2015, the University entered into a promissory note agreement of $426,100 at the monthly LIBOR interest rate (2.09% at June 30, 2018) plus 1.5%. The note was paid in full in May 2018. Interest expense for the promissory note for the years ended June 30, 2018 and 2017 was $1,734 and $4,213, respectively.

Note 8. Bonds Payable

Bonds payable at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Fixed-rate bonds issued in 2015, maturing through 2025 (2015 Bonds)	$12,743,627	$14,272,084
Variable-rate bonds issued in 2011, maturing through 2021 (2011 Bonds)	9,863,624	10,344,777
2.0% to 4.0% bonds issued in 2004 and maturing through 2018 (2004 Bonds)	-	250,000
	22,607,251	24,866,861
Unamortized discount, premium and bond issuance costs	(115,265)	(148,785)
Total bonds payable	$22,491,986	$24,718,076

On May 6, 2015, the University, in conjunction with the Ohio Higher Educational Facility Commission (the Commission), issued $17,339,202 of State of Ohio Higher Educational Facility bonds (the 2015 Bonds) at a 2.48% fixed rate. While the bonds were issued through the Commission, they were placed as a private placement with the Delaware County Bank and BMO Harris Bank. The bond proceeds were used to retire a 2009 Bond issue.

The 2015 Bonds are subject to the 2015 bond base lease terms (the Lease) with the Commission in conjunction with the 2009 Project. The University is required to make rental payments under the Lease in amounts sufficient to pay the principal and interest on the 2015 Bonds. The 2015 Bonds are special obligations of the State of Ohio and the debt service on the 2015 Bonds is payable solely from the revenues to be derived by the Commission from its ownership of the 2009 Project. The 2015 Bonds are collateralized by a security interest in the 2009 Project. The University has agreed to purchase the 2009 Project from the Commission after all of the debt service on the 2015 Bonds has been paid.

On December 16, 2011, the University entered into a loan in the form of a draw term loan agreement with PNC Bank for up to $15,000,000 (the 2011 Bonds). The terms of the loan call for a 2-year interest-only repayment period during the draw period, then an additional 96 months to maturity based on a 25-year amortization of the balance with a balloon payment due for any outstanding balance on the bonds' maturity date of December 16, 2021. The loan is based on the daily LIBOR rate (1.93% at June 30, 2018) plus 1.10%. The proceeds were for the renovation of Stuyvesant Hall.

Note 8. Bonds Payable (Continued)

In 2004, the University, in conjunction with the Commission, issued $6,000,000 in Higher Educational Facility Revenue Bonds to refund outstanding 1994 Revenue Bonds. The Bonds matured in November 2017.

Principal payments for all bonds, for the years ending June 30, are as follows:

2019	$ 2,046,622
2020	2,085,889
2021	2,126,142
2022	10,106,420
2023	1,728,550
Thereafter	4,513,628
	$22,607,251

Interest expense for all bonds payable for the years ended June 30, 2018 and 2017 was $616,007 and $597,545, respectively.

Note 9. Net Assets

Net assets of the University and subsidiaries, and the nature of any restrictions consisted of the following:

	June 30	
	2018	2017
Temporarily restricted net assets		
Scholarships, prizes and awards	$ 30,833,010	$ 28,093,472
Faculty support and academic programs	8,625,645	7,393,429
General university operations	21,274,463	19,728,441
Library acquisitions	1,305,727	1,244,622
Annuity, pooled income and unitrust funds	(1,745,425)	(1,676,868)
Interest in trusts	1,015,791	991,607
Endowment income designated for restricted purposes	12,211,988	11,097,525
Unexpended gifts and grants	3,733,599	3,650,171
Pledges receivable	4,310,337	3,382,440
Other purposes	1,468,103	1,209,590
	$ 83,033,238	$ 75,114,429
Permanently restricted net assets		
Scholarships, prizes and awards	$ 82,216,900	$ 75,841,525
Faculty support and academic programs	33,562,385	30,989,456
General university operations	46,195,493	46,079,016
Library acquisitions	1,314,732	1,309,182
Annuity, pooled income and unitrust funds	6,241,688	6,143,524
Interest in trusts	1,997,733	1,863,403
Student loan funds	2,324,525	2,282,685
Pledges receivable	2,912,382	4,349,140
Other purposes	8,856,014	7,631,246
	$185,621,852	$176,489,177

Note 9. Net Assets (Continued)

Net assets released from restrictions relate to the following:

	June 30	
	2018	2017
Academic support, including library	$ 1,275,689	$ 806,373
Financial aid from outside sources	5,855,252	5,523,368
Plant	632,790	2,968,858
Instruction	1,218,400	1,797,970
Management and general	1,002,504	32,526
Student services	1,049,424	754,114
Research	368,215	236,252
Other	140,793	118,828
	$11,543,067	$12,238,289

Note 10. Endowment Funds

The Board of Trustees of the University has approved an investment policy detailing the long-term goals, asset allocation, measurable objectives, on-going communication, review and oversight. The basic philosophy of the investment policy is that administration and management of the endowment are to be implemented through diversified investment options designed to recognize income needs for ongoing operations, as well as committed spending and capital-growth needs to meet expansion goals and costs increased by future inflation.

Permanently restricted endowment funds represent funds which are restricted as to use in perpetuity. The University records permanent endowment gifts at historic dollar value. Distributions from endowment funds are spent in compliance with the donor's restrictions applicable to the funds being distributed. The current spending rule provides an annual cash flow to the operating budget equal to the fixed amount of spending calculated at June 30, 1998 increased by the CPI-U plus 4% of new endowment gifts.

Distributions for operations during the years ended June 30, 2018 and 2017 were $14,492,291 and $14,400,000, respectively. Following the University's spending policy, only $11,411,164 and $10,944,573 would have been distributed during the years ended June 30, 2018 and 2017, respectively; however, a Board resolution was passed for the distribution to include a supplemental endowment draw to support Board-approved investments in strategic initiatives.

From time to time the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires the University to retain as a perpetual fund balance. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions or as a result of continued expenditure for programs that the Board deems prudent. The fair value of assets associated with certain individual donor-restricted endowment funds was below the carrying value by $582,364 and $982,741 at June 30, 2018 and 2017, respectively.

Note 10. Endowment Funds (Continued)

The endowment pool, which includes true endowment and quasi-endowment, was as follows as of June 30, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 3,832,423	$ 55,495,365	$161,974,303	$221,302,091
Investment return:				
Investment income	42,025	1,045,594	26,843	1,114,463
Net appreciation (realized and unrealized)	658,820	16,521,786	-	17,180,606
Total investment return	700,845	17,567,380	26,843	18,295,069
Cash contributions and transfers	4,183,374	-	10,333,632	14,517,007
Appropriation of endowment assets for expenditure	(6,613,421)	(7,878,870)	-	(14,492,291)
Endowment assets, end of year	$ 2,103,221	$ 65,183,875	$172,334,779	$239,621,875

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 9,424,160	$ 36,674,089	$155,511,886	$201,610,135
Investment return:				
Investment income	17,553	367,354	4,513	389,420
Net appreciation (realized and unrealized)	1,240,216	26,004,416	-	27,244,632
Total investment return	1,257,769	26,371,770	4,513	27,634,052
Cash contributions and transfers	-	-	6,457,904	6,457,904
Appropriation of endowment assets for expenditure	(6,849,506)	(7,550,494)	-	(14,400,000)
Endowment assets, end of year	$ 3,832,423	$ 55,495,365	$161,974,303	$221,302,091

Note 11. Noncontrolling Interest

The following is a reconciliation of net assets relating to the University and to the noncontrolling interests of the OWU Fund, Stuyvesant Hall and Master Tenant:

	University	Noncontrolling Interest	Total
Net assets balance at June 30, 2016	$309,566,181	$ 6,323,123	$315,889,304
Capital distribution	-	(351,095)	(351,095)
Change in net assets attributable to:			
University	27,160,373	-	27,160,373
Noncontrolling interests	-	308,142	308,142
Net assets balance at June 30, 2017	336,726,554	6,280,170	343,006,724
Capital distribution	-	(79,477)	(79,477)
Change in net assets attributable to:			
University	13,648,919	-	13,648,919
Noncontrolling interests	-	(162,453)	(162,453)
Net assets balance at June 30, 2018	$350,375,473	$ 6,038,240	$356,413,713

Note 12. Commitments and Contingencies

At June 30, 2018, the University has outstanding commitments on various construction projects totaling approximately $2,415,000 most of which is related to building renovations and new construction.

The University is involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the University's operations or financial position.

Stuyvesant Hall receives rental income from Master Tenant under a 32-year master lease that expires in 2044. Future minimum lease payments are $72,458 per month. These amounts are eliminated in consolidation.