DEPAUW UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2017 and 2016

DEPAUW UNIVERSITY
Greencastle, Indiana

FINANCIAL STATEMENTS
June 30, 2017 and 2016

CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
DePauw University
Greencastle, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of DePauw University, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related 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 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 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 financial statements based on our audits. 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 financial statements are free from material misstatement.

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DePauw University as of June 30, 2017 and 2016, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
September 29, 2017

DEPAUW UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 7,160,770	$ 10,362,744
Cash restricted for capital projects	1,781,975	5,401,510
Accounts receivable (net of allowance of $940,000 for 2017 and $942,000 for 2016)	1,262,741	1,405,071
Inventories	182,000	172,530
Prepaid expenses	1,846,739	2,083,276
Contributions receivable, net (Note 2)	79,016,506	75,735,639
Student notes receivable (net of allowance for uncollectible notes of $452,000 for 2017 and $448,000 for 2016)	6,212,577	5,776,677
Other notes receivable, mortgages and promissory notes	487,143	626,667
Investments (Note 3)	621,404,354	569,674,059
Real estate held for resale	2,953,416	2,840,708
Other investments	629,000	629,000
Property, plant and equipment (Note 4)	264,302,242	253,697,647
Cash surrender value of life insurance	5,291,810	5,226,278
Beneficial interest in lead and remainder trusts (Note 5)	8,751,527	9,992,206
Beneficial interest in perpetual trusts (Note 6)	10,467,203	10,015,197
Total assets	$ 1,011,750,003	$ 953,639,209
LIABILITIES		
Accounts payable and other accruals	$ 5,698,724	$ 5,418,685
Interest payable	1,370,301	1,401,322
Deposits, prepayments and other liabilities	3,825,599	3,681,214
Capital leases	901,986	1,271,261
Note payable	1,128,538	1,128,538
Dining service program advance	6,041,420	1,834,277
Fair value of interest rate swap (Note 11)	16,182,083	22,453,210
Annuity and trust liability (Note 7)	13,224,155	13,426,555
Advances from federal government for student loans	3,323,883	3,323,883
Accumulated postretirement benefit obligation (Note 8)	18,120,918	19,446,666
Bonds payable (Note 10)	128,968,001	130,926,626
Total liabilities	198,785,608	204,312,237
NET ASSETS		
Unrestricted	299,370,555	273,155,306
Temporarily restricted (Note 12)	136,558,082	108,299,382
Permanently restricted (Note 12)	377,035,758	367,872,284
Total net assets	812,964,395	749,326,972
Total liabilities and net assets	$ 1,011,750,003	$ 953,639,209

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Tuition and fees	$ 98,980,365	$ -	$ -	$ 98,980,365
Grants and scholarships	(58,144,790)	-	-	(58,144,790)
Net tuition and fees	40,835,575	-	-	40,835,575
Contributions	7,286,760	15,540,861	8,637,930	31,465,551
Investment return designated for current operations (Note 3)	14,644,574	18,460,440	-	33,105,014
Federal grants	19,070	131,708	-	150,778
Auxiliary services	19,308,241	-	-	19,308,241
Other income	4,660,033	127,923	-	4,787,956
Releases (from) restriction (Note 12)	20,465,712	(21,221,600)	755,888	-
	107,219,965	13,039,332	9,393,818	129,653,115
Expenses				
Instruction	49,427,038	-	-	49,427,038
Student services	16,859,589	-	-	16,859,589
Academic support and library	14,838,355	-	-	14,838,355
Management and general	8,667,583	-	-	8,667,583
Fundraising and alumni support	5,313,710	-	-	5,313,710
Auxiliary services	19,060,092	-	-	19,060,092
	114,166,367	-	-	114,166,367
Change in net assets from operations	(6,946,402)	13,039,332	9,393,818	15,486,748
Non-operating activities				
Gain on interest rate swap (Note 11)	6,271,127	-	-	6,271,127
Other changes in accumulated postretirement benefit obligations	(9,050)	-	-	(9,050)
Net assets released for capital projects (Note 12)	10,129,946	(10,129,946)	-	-
Change in value of split-interest agreements	(131,991)	839,373	825,355	1,532,737
Non-operating miscellaneous revenue	3,253	6,130	-	9,383
Voluntary retirement payout	(1,035,680)	-	-	(1,035,680)
Investment return after amounts designated for current operations (Note 3)	16,865,156	24,503,811	13,191	41,382,158
	32,092,761	15,219,368	838,546	48,150,675
Change in net assets	25,146,359	28,258,700	10,232,364	63,637,423
Clarification of donor intent (Note 1)	1,068,890	-	(1,068,890)	-
Change in net assets	26,215,249	28,258,700	9,163,474	63,637,423
Net assets at beginning of year	273,155,306	108,299,382	367,872,284	749,326,972
Net assets, end of year	$ 299,370,555	$ 136,558,082	$ 377,035,758	$ 812,964,395

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Tuition and fees	$ 97,626,005	$ -	$ -	$ 97,626,005
Grants and scholarships	(54,456,848)	-	-	(54,456,848)
Net tuition and fees	43,169,157	-	-	43,169,157
Contributions	7,060,113	11,328,583	31,935,416	50,324,112
Investment return designated for current operations (Note 3)	14,495,735	17,437,433	-	31,933,168
Federal grants	88,883	30,619	-	119,502
Auxiliary services	18,767,822	-	-	18,767,822
Other income	4,375,789	130,376	-	4,506,165
Releases (from) restriction (Note 12)	18,214,672	(18,615,384)	400,712	-
	106,172,171	10,311,627	32,336,128	148,819,926
Expenses				
Instruction	47,157,914	-	-	47,157,914
Student services	17,494,342	-	-	17,494,342
Academic support and library	13,180,577	-	-	13,180,577
Management and general	8,548,655	-	-	8,548,655
Fundraising and alumni support	5,375,483	-	-	5,375,483
Auxiliary services	18,279,143	-	-	18,279,143
	110,036,114	-	-	110,036,114
Change in net assets from operations	(3,863,943)	10,311,627	32,336,128	38,783,812
Non-operating activities				
Loss on interest rate swap (Note 11)	(5,072,943)	-	-	(5,072,943)
Other changes in accumulated postretirement benefit obligations	(2,312,503)	-	-	(2,312,503)
Net assets released for capital projects (Note 12)	12,310,955	(12,310,955)	-	-
Change in value of split-interest agreements	35,000	(1,000,927)	(155,179)	(1,121,106)
Non-operating miscellaneous revenue	52,348	81,079	-	133,427
Investment return after amounts designated for current operations (Note 3)	(30,280,831)	(32,225,186)	-	(62,506,017)
	(25,267,974)	(45,455,989)	(155,179)	(70,879,142)
Change in net assets	(29,131,917)	(35,144,362)	32,180,949	(32,095,330)
Clarification of donor intent (Note 1)	-	(1,460,000)	1,460,000	-
Change in net assets	(29,131,917)	(36,604,362)	33,640,949	(32,095,330)
Net assets at beginning of year	302,287,223	144,903,744	334,231,335	781,422,302
Net assets, end of year	$ 273,155,306	$ 108,299,382	$ 367,872,284	$ 749,326,972

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 63,637,423	$ (32,095,330)
Items not requiring (providing) cash		
Depreciation and amortization	11,165,780	10,254,402
Actuarial change in postretirement benefit obligation	(1,512,146)	791,307
Net realized/unrealized loss (gain) loss on investments	(74,594,958)	33,449,329
Contributed stock	(7,089,615)	(12,709,463)
Contributions restricted for long-term investment	(11,241,474)	(11,745,803)
Contributions restricted for capital projects	(5,159,976)	(6,221,784)
Change in fair value of interest rate swap	(4,014,945)	7,532,612
Changes in		
Accounts receivable	142,330	(524,965)
Inventories, prepaid and other assets	227,067	(154,059)
Contributions receivable	3,808,748	(10,432,273)
Student notes receivable	(435,900)	(313,957)
Real estate held for resale	(112,708)	(4,763)
Net change in cash surrender value of life insurance	(65,532)	(164,449)
Beneficial interest in remainder and perpetual trusts	788,673	2,393,935
Accounts payable and other accruals	424,424	(292,435)
Interest payable	(31,021)	7,380
Annuity and trust liability	(202,400)	(803,615)
Accumulated postretirement benefit obligation	186,398	347,657
Net cash from operating activities	(24,079,832)	(20,686,274)
Cash flows from investing activities		
Stock contributions restricted for capital projects	(1,502,379)	(2,641,534)
Purchases of property, plant and equipment	(21,954,997)	(27,659,588)
Proceeds from sales of securities	86,813,336	90,454,329
Purchases of securities	(63,948,673)	(74,127,150)
Payments on notes receivable and other investing activities	139,524	183,571
Net cash from investing activities	(453,189)	(13,790,372)
Cash flows from financing activities		
Stock contributions restricted for capital projects	1,502,379	2,641,534
Proceeds from contributions restricted for long-term investment	11,241,474	11,745,803
Proceeds from contributions restricted for capital projects	5,159,976	6,221,784
Dining service program advance	4,500,000	-
Repayment of advances from federal government for student loans	-	(347,087)
Net settlements on interest rate swaps	(2,256,182)	(2,459,669)
Payments on capital leases	(421,135)	(494,923)
Proceeds from note payable	-	1,125,538
Principal payments on bonds payable	(2,015,000)	-
Issuance of bonds payable	-	13,495,000
Net cash from financing activities	17,711,512	31,927,980
Net change in cash and cash equivalents	(6,821,509)	(2,548,666)
Cash and cash equivalents, beginning of year	15,764,254	18,312,920
Cash and cash equivalents, end of year	$ 8,942,745	$ 15,764,254
Supplemental cash flows information		
Interest paid	$ 5,214,961	$ 5,092,503
Purchases of property, plant and equipment in accounts payable	1,751,738	2,785,811
Equipment obtained through capital lease financing	51,860	1,007,071

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: DePauw University (University), a privately endowed educational institution, derives its revenue from student tuition and fees, investments, gifts and grants, operation of auxiliary enterprises and various related activities. The University is a nonprofit organization exempt from the payment of federal income tax under the provisions of Internal Revenue Code Section 501(c)(3) as a corporation organized and operated for educational purposes and has been determined by the Internal Revenue Service not to be a private foundation.

Income Taxes: The University is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

The University is subject to guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit will be recorded.

The University does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The University recognizes interest and/or penalties related to income tax matters in income tax expense. The University did not have any amounts accrued for interest and penalties at June 30, 2017 and 2016. At June 30, 2017 and June 30, 2016, the University has not recorded any expected tax benefits.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications: The financial statements have been prepared in accordance with GAAP. This requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, or permanently restricted.

The following classes of net assets are maintained:

Unrestricted Net Assets - The unrestricted net asset class includes general assets and liabilities of the University. The unrestricted net assets of the University may be used at the discretion of management to support the University’s purposes and operations.

Temporarily Restricted Net Assets - The temporarily restricted net asset class includes assets of the University related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. 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 - The permanently restricted net asset class includes assets of the University for which the donor has stipulated that they be maintained in perpetuity. 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.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Cash Restricted for Capital Projects: For purposes of reporting cash flows, the University considers all liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2017 and 2016, the University's cash accounts exceeded federally insured limits by approximately $8,084,000 and $14,497,000. Cash restricted for capital projects represents cash reserved for use on ongoing construction efforts related to the Master Plan.

Accounts Receivable: Student accounts receivable are stated at the amount billed for tuition and fees. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the student's bill. Interest is not charged on past due accounts.

Student Notes Receivable: Student notes receivable are reported at the outstanding principal balances. These loans have been issued to eligible students primarily under the Federal Perkins Loan Program. The repayment period begins after an initial grace period of either six or nine months after the student ceases to be at least a half-time student. Interest income is recorded as monthly payments are received. The University's share of any uncollectible accounts under the Federal Perkins Loan Program would not be material to the financial statements. Defaulted loans are handled in accordance with the guidelines of the Federal Perkins Loan Program.

At June 30, 2017 and 2016, the following amounts were past due under the loan programs:

June 30	1 – 270 Days Past due	270 Days - 2 Years Past due	2 - 5 Years Past due	5 + Years Past due	Total Past Due
2017	$ 10,437	$ 16,815	$ 108,273	$ 164,416	$ 299,941
2016	$ 11,497	$ 23,331	$ 108,066	$ 139,269	$ 282,163

Investments and Investment Returns: Marketable securities and other investments are carried at fair value. Realized and unrealized gains and losses are included in the statements of activities. Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

The University has significant investments in stocks, bonds and mutual funds and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by the University and the investments are monitored for the University by an investment advisor. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the University.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets held in diversifying assets, real assets, venture capital, and private equity funds 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 other investments is based on valuations provided by the external investment managers, adjusted for cash receipts, disbursements and significant known valuation changes in market values of publicly held securities contained in the portfolio. Ongoing review and assessment is made to incorporate other transactions, activity and factors to estimate fair value at the financial statement date due to the latest information provided by the fund managers or the general partners not always being as of the financial statement date. Fair value estimation for these investments is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available. 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 the withdrawal restrictions, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

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

The Board of Trustees designates only a portion of the University's cumulative investment return to support current operations. The remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements is used to support current operations.

Property, Plant and Equipment: Expenditures for property, plant and equipment and items which substantially increase the useful lives of existing assets in excess of $10,000 are capitalized at cost, or fair value if donated. The University provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over their estimated useful lives as follows:

Campus grounds and buildings	10 – 50 years
Furnishings and equipment	3 – 10 years
Books and scientific apparatus	5 – 10 years
Inn at DePauw and Student Social Center	10 – 50 years
Other property held	3 – 30 years

Collections: Collections, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Asset Impairment: The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value. No impairment is thought to exist at June 30, 2017 or 2016.

Note Payable: In June 2015, the University entered into a loan agreement with a principal balance up to $1,600,000 with a maturity date of June 2, 2024 and a variable interest rate of one month LIBOR plus 2.45% through July 1, 2017 and the weekly average of the 7-year International Swaps and Derivatives Association mid-market par swap rate plus 1.94% thereafter.

Dining Service Program Advance: To provide initial funding for capital improvements to the University's dining services facilities, a service provider committed to provide $6,600,000 in the form of an interest free advance. As of June 30, 2016, $2,100,000 had been advanced to the University and an additional $4,500,000 was advanced as of June 30, 2017. The advance is to be repaid on a straight-line basis over the life of the service agreement from November 1, 2014 through June 30, 2031. If the agreement expires or is terminated for any reason prior to June 30, 2031, the University must pay to the service provider the remaining balance in full. As of June 30, 2017 and 2016, the balance of the advance was $6,041,420 and $1,834,277, respectively.

Advances from Federal Agency for Student Loans: The University participates in the Federal Perkins Student Loan Program. The liability balance represents an accumulation of funds advanced to the University, net of the University's matching portion. If the University terminates the program, the net funds advanced are repayable to the program.

Cash Surrender Value of Life Insurance Policies: The University is the owner and beneficiary of several life insurance policies. These assets are recorded at the current cash surrender value of these policies, and are included on the statement of financial position.

Self-Insurance: The University maintains a self-funded medical insurance plan covering medical-related benefits for its employees. The plan includes individual and group stop loss coverage. The individual stop loss limit is $200,000. Claims payable at June 30, 2017 and 2016 amounted to $754,533 and $466,449, respectively, and are recorded as part of deposits, prepayments, and other liabilities on the statements of financial position. This estimate is based on projections of total costs versus actual costs incurred; therefore, actual claims outstanding could differ significantly.

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 statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 reported at the present value of estimated future cash flows.

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. As of June 30, 2017 and 2016, there were no conditional gifts.

Government Grants: Support funded by grants is recognized as the University performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Expense Allocation: Expenses have been classified as program services (instruction, student services, academic support and library, and auxiliary services), management and general, and fundraising and alumni support based on the actual direct expenditures and cost allocations based upon square footage of occupancy. Total program services expenses were $99,859,878 and $96,111,976 and total expenses were $114,166,367 and $110,036,114 for the years ended June 30, 2017 and 2016.

Clarification of Donor Intent: During 2017 and 2016, the University received clarification from donors related to their intentions for gifts recognized in prior years. As a result, net assets were reclassified by restriction. The reclassification had no effect on the change in net assets or total net assets.

Reclassifications: Certain reclassifications have been made to present last year’s financial statements on a basis comparable to the current year’s financial statements. These reclassifications had no effect on the change in net assets or total net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2017, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2017. Management has performed their analysis through September 29, 2017, the date the financial statements were issued.

(Continued)

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30:

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 9,936,937	$ 5,248,244	$ 15,185,181
Due in one to five years	25,235,844	15,140,848	40,376,692
Due in more than five years	5,825,000	36,143,484	41,968,484
	40,997,781	56,532,576	97,530,357
Allowance for uncollectible contributions	(1,845,000)	(2,313,000)	(4,158,000)
	39,152,781	54,219,576	93,372,357
Discount for time value of money	(4,092,248)	(10,263,603)	(14,355,851)
	$ 35,060,533	$ 43,955,973	$ 79,016,506

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 8,604,015	$ 5,957,177	$ 14,561,192
Due in one to five years	19,064,697	20,704,631	39,769,328
Due in more than five years	6,475,000	32,172,313	38,647,313
	34,143,712	58,834,121	92,977,833
Allowance for uncollectible contributions	(1,536,000)	(2,451,000)	(3,987,000)
	32,607,712	56,383,121	88,990,833
Discount for time value of money	(3,431,591)	(9,823,603)	(13,255,194)
	$ 29,176,121	$ 46,559,518	$ 75,735,639

Discount rates used to estimate the present value of future year receivables ranged from 1.2% to 6.0% for 2017 and 2016.

Contributions receivable designated for specific purposes are as follows:

	2017	2016
Faculty development	$ 3,315,768	$ 3,583,164
Scholarships	29,023,651	31,748,404
Campus and facilities	30,400,930	23,686,382
Other purposes	15,835,446	15,890,727
Any activity of the University	440,711	826,961
	$ 79,016,506	$ 75,735,639

(Continued)

NOTE 3 - INVESTMENTS

The University's investments, at fair value, as of June 30, are as follows:

	2017	2016
Short-term investments	$ 43,458,835	$ 55,778,281
Government securities	21,353,366	19,745,263
Corporate bonds	13,370,018	14,622,022
Domestic common stocks	134,945,507	113,688,022
Foreign common stocks	122,807,244	109,171,252
Private equity		
Venture capital/buy-out	70,931,275	75,196,764
Special situations	4,980,813	6,331,889
Total private equity	75,912,088	81,528,653
Real assets		
Real estate	11,406,498	13,087,121
Natural resources	24,825,296	19,638,004
Total real assets	36,231,794	32,725,125
Diversifying assets		
Absolute return strategies	9,799,329	1,730,260
Direct lending	10,293,732	4,422,521
Equity long/short	103,423,971	96,230,104
Global macro	200,027	239,015
Distressed	48,913,401	38,841,166
Short credit	695,042	952,375
Total diversifying assets	173,325,502	142,415,441
Totals	$ 621,404,354	$ 569,674,059

The University engages professional investment managers to manage its investment portfolio. The University's investment policy allows the managers to utilize derivative financial instruments with the approval of the Investment Committee of the University's Board of Trustees. The use of derivatives must be consistent with the University's investment policy and objectives of maximizing the yield on invested funds in order to preserve and enhance inflation-adjusted purchasing power while providing a stable stream of earnings to meet spending needs. The University also invests in certain mutual funds that allow for the use of derivatives within guidelines established in the fund's investment policies.

The following schedule summarizes the investment return and the amounts designated to support current operations.

	2017	2016
Dividends and interest, net of investment expenses of $3,563,847 and $2,638,046 for 2017 and 2016	$ (107,786)	$ 2,876,480
Net realized gains on investments	26,008,076	21,255,075
Net unrealized gains (losses) on investments	48,586,882	(54,704,404)
Total return on investments	74,487,172	(30,572,849)
Investment return designated for current operations	(33,105,014)	(31,933,168)
Investment return in excess of amounts designated for current operations	$ 41,382,158	$ (62,506,017)

(Continued)

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

The University's property, plant and equipment are as follows:

	2017	2016
Campus grounds and buildings	$ 364,193,298	$ 318,515,587
Furnishings and equipment	43,506,574	41,205,271
Books and scientific apparatus	2,994,410	2,941,042
Inn at DePauw and Student Social Center	14,853,560	14,298,031
Other property held	13,028,154	12,979,634
	438,575,996	389,939,565
Accumulated depreciation	(189,806,087)	(177,982,411)
	248,769,909	211,957,154
Construction in progress	5,026,676	31,484,662
Land	10,505,657	10,255,831
	$ 264,302,242	$ 253,697,647

Construction in progress at June 30, 2017 primarily includes expenditures related to enhancements to Asbury Hall and the construction of the Center for Diversity and Inclusion. Capitalized interest included in construction in progress at June 30, 2017 and 2016 is $60,997 and $914,751, respectively. At June 30, 2017 the University had committed $31,840,874 for capital projects.

NOTE 5 - BENEFICIAL INTEREST IN LEAD AND REMAINDER TRUSTS

The University is a beneficiary of 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 estimated lifetime of the beneficiary). At the end of the trust's term, the remaining assets (or the designated portion thereof) are available for the University. The portion of the trust attributable to the beneficial interest of the University is recorded at the fair value, and classified as temporarily or permanently restricted contributions in the period the trust is established.

The University is also a beneficiary of various charitable lead trusts. A charitable lead trust is an arrangement in which the donor establishes and funds a trust with specific distributions to be made to the University over specified period. The distribution may be for a fixed dollar amount or a fixed percentage of the trust's fair market value. Upon termination of the trust, the remainder of the trust's assets is paid to the donor or beneficiaries designated by the donor. On an annual basis, the estimated fair value is adjusted to reflect the passage of time, revaluation of the present value of future payments, changes in actuarial assumptions during the term of the trust and discount rates based on current market conditions.

Discount rates of 2.4% and 1.8% were used for the years ended June 30, 2017 and 2016, respectively. The estimated fair value of these trusts as of June 30, 2017 and 2016 were $8,751,527 and $9,992,206, respectively.

NOTE 6 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The University is the beneficiary under several 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. Annual distributions from the trust are reported as investment income. The trusts are valued at $10,467,203 at June 30, 2017 and $10,015,197 at June 30, 2016, which represents the fair value of the trust assets at the respective year ends.

NOTE 7 - ANNUITY AND TRUST LIABILITY

The University is the recipient of several gift annuities and charitable remainder trusts, which require future payments to donors or their named beneficiaries. The University has recorded a liability in the amount of $13,224,155 and $13,426,555 at June 30, 2017 and 2016, which represents the present value of the future annuity and trust obligations. Discount rates ranging from 1.2% to 11% were used to calculate this liability for 2017 and 2016.

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION

The University provides a defined-benefit postretirement health care plan for eligible employees. Employees and their spouses hired before July 1, 2005, who are 55 years of age or older and have 15 or more consecutive years of full-time service and whose age plus years of service equals or exceeds 80 are eligible for this benefit. The University accrues the expected cost of providing defined benefit postretirement benefits for employees during the years the employees render service. The University's policy is to fund payments as claims are paid. Employees hired after July 1, 2005 are not eligible for this plan.

Post-retirement benefits between ages 55 and 65 include coverage for the retirees and covered spouses in DePauw's group medical plan, including medical, dental, prescription drug, and vision expenses. When retirees and covered spouses have attained the age of 65, they are placed in the University retiree health plan. Under the retiree health plan, retirees and covered spouses who retired before July 1, 2005 will continue to receive lifetime benefits paid by DePauw subject to a maximum per month established by the University. All eligible plan members who retire after January 1, 2005 will have benefits under the retiree health plan for a maximum of 25 years. The 25-year maximum is reduced by the number of years that the retiree is employed after July 1, 2005. After June 30, 2030, these retirees and covered spouses will be responsible for all insurance premiums. Payment amounts for 2016 vary based on retiree age and type of coverage and the plan design includes 3% increases annually. The retiree and covered spouse pay any premium above this amount.

GAAP requires recognition of the funded status of a defined benefit postretirement plan in the statements of financial position, recognition of the changes in funded status in the year in which the changes occur through net assets, and measurement of the funded status of a plan as of the date of its fiscal year-end, with limited exceptions.

(Continued)

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (Continued)

The following table sets forth the University's accumulated postretirement benefit obligation, fair value of plan assets, and the accrued postretirement benefit obligation recognized in the statement of financial position at June 30:

	2017	2016
Accumulated postretirement benefit obligation at beginning of year	$ 19,446,666	$ 18,307,702
Service cost	335,095	362,807
Interest cost	676,361	782,881
Actuarial losses (gains) – net	(1,512,146)	791,307
Benefits paid	(825,058)	(798,031)
Accumulated postretirement benefit obligation at end of year	18,120,918	19,446,666
Fair value of plan assets	-	-
Accrued postretirement benefit obligation at end of year	$ 18,120,918	$ 19,446,666

	2017	2016
Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consists of:		
Prior service cost	$ (5,303,295)	$ (6,824,491)
Net loss	174,924	1,687,070
Amount recognized	$ (5,128,371)	$ (5,137,421)

Employer contributions to the plan during 2017 and 2016, respectively, were $825,058 and $798,031.

The net periodic postretirement benefit cost is comprised of service and interest costs as well as recognition of actuarial gains and losses. For the years ended June 30, 2017 and 2016, the net periodic postretirement benefit cost was $(509,740) and $(375,508), respectively. The estimated net loss for the defined-benefit postretirement health care plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $1,521,196.

The health care cost trend rate assumptions used in determining the accumulated postretirement benefit obligation begin at 7.1% for 2019, then to 6.5% in 2020 and gradually decrease to 4.1%. Estimated benefit payments are based on the same assumptions used to measure the benefit obligation as of June 30, 2017, adjusted for benefits attributable to estimated future employee service. The discount rate used in determining the accumulated postretirement benefit obligations was 3.80% and 3.57% at June 30, 2017 and 2016, respectively. The discount rate to determine the post-retirement benefit costs was 3.57% and 4.39% at June 30, 2017 and 2016, respectively. The impact on the liability of a 1% increase in rates or a 1% decrease in rates would be $1,368,269 or $(1,240,006), respectively.

(Continued)

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (Continued)

The projected benefit payments for the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

2018	$ 1,016,367
2019	1,126,911
2020	1,205,638
2021	1,298,517
2022	1,418,447
Thereafter	8,146,546

Postretirement life insurance in the amount of $3,500 is provided for all retirees.

NOTE 9 - RETIREMENT BENEFITS

Faculty, administrative, and support staff employees of the University are participants in defined-contribution retirement plans. Under these plans, the University makes contributions which are immediately vested for the benefit of the participants. The University's contributions to these plans amounted to $3,133,924 and $3,148,827 for the years ended June 30, 2017 and 2016.

NOTE 10 - BONDS PAYABLE AND LINE OF CREDIT

On April 15, 2008, the Indiana Finance Authority issued $42,225,000 of Variable Rate Demand Educational Facilities Revenue Bonds, Series 2008A and $42,330,000 of Variable Rate Demand Rate Educational Facilities Revenue Bonds Series 2008B. The funds were loaned to the University for the purposes of financing the current refunding of the Indiana Educational Facilities Authority Adjustable Rate Educational Facilities Revenue Bonds, Series 2006 totaling $83,850,000; and to obtain credit enhancements and pay certain costs of issuance. On December 1, 2009, a portion ($8,810,000 in principal) of the Series 2008B Bonds was refunded and the remainder was refunded in whole with the Series 2014 Bonds ($32,160,000 in principal).

The 2008A Bonds mature on July 1, 2036 and bear interest in one of several different adjustable interest rate modes (which consist of daily, weekly or long-term) or at a fixed interest rate, depending on the University's election. At June 30, 2017 and 2016, the University was under the weekly interest rate mode, and interest was stated at 0.05%. The 2008A Bonds are secured by an irrevocable letter of credit, which expires in May 2019 and was issued for $41,739,830 in February 2014, which represented the principal of the 2008A Bonds plus accrued interest at the time of issuance. Should the University draw on the letter of credit, repayment of such amounts would be due on the earliest of (i) the date on which the bonds are redeemed or cancelled; (ii) the date on which the bonds are remarketed pursuant to the trust indenture; (iii) the date on which the letter of credit is replaced by a substitute letter of credit pursuant to the trust indenture; (iv) the stated expiration date of the letter of credit; or (v) repaid in four substantially equal quarterly principal payments with first principal payment due on the 367th day after the liquidity draw. The University would also be required to pay interest on the unpaid principal amount of the amount drawn on the letter of credit at a rate equal to the Prime Rate for the first 180 days and the Prime Rate plus 2% on the 181st day until the principal amount drawn has been repaid. Principal outstanding on the 2008A Bonds as of June 30, 2017 and 2016 was $41,265,000.

(Continued)

NOTE 10 - BONDS PAYABLE AND LINE OF CREDIT (Continued)

On December 1, 2009, the Indiana Finance Authority issued $29,845,000 of Educational Facilities Revenue Bonds Series 2009A and $15,155,000 of Educational Facilities Revenue Bonds Series 2009B. The funds were loaned to the University for the purpose of financing the current refunding of the Indiana Educational Facilities Authority Educational Facilities Revenue Bonds Series 1999 totaling $14,440,000, providing payment in full of the Northern Trust line of credit, the current refunding of a portion ($8,810,000 in principal) of the Series 2008B Bonds and pay certain costs of issuance.

The 2009 Bonds mature on July 1, 2039 and are subject to prior redemption. The 2009A Bonds bear interest at a fixed interest rate of 5.5% for $24,845,000 and 5.75% for $5,000,000. The 2009B Bonds bear interest at a fixed interest rate of between 4.0% and 4.75% based upon the majority of the Bonds. Principal outstanding on the 2009 Bonds as of June 30, 2017 and 2016 was $41,695,000 and $43,380,000.

On March 15, 2014, The Indiana Finance Authority issued $32,500,000 of Educational Facilities Revenue Refunding Bonds, Series 2014 as a Bond Purchase and Loan Agreement between the University and PNC Bank, National Association. The funds were loaned to the University for the purpose of financing the current refunding of the Series 2008B Bonds ($32,160,000 in principal) and pay certain costs of issuance.

The Series 2014 Bonds mature on July 1, 2041 and are subject to prior redemption. The initial Bank Purchase Mode Term shall expire on July 1, 2019. Upon expiration, the Borrower may elect to convert the Bond to a new Mode (with weekly or flexible interest rate periods), a new Bank Purchase Mode Term (but not beyond the Maturity Date), or the bonds shall be subject to mandatory tender for purchase. The decision as to whether the Bond is converted to a new Bank Purchase Mode or a new Mode is the sole decision of the Borrower.

The Series 2014 Bonds bear interest during the initial Bank Purchase Mode Term at a variable bank rate equal to the sum of .70 times the one month LIBOR rate, plus 55 basis points. At June 30, 2017 and 2016, the University interest rate was stated at 1.41% and .87%, respectively. Principal outstanding on the 2014 Bonds as of June 30, 2017 and 2016 was $32,500,000.

On July 30, 2015, The Indiana Finance Authority issued $15,115,000 of Educational Facilities Revenue Bonds, Series 2015 as a Bond Purchase and Loan Agreement between the University and PNC Bank, National Association. The funds were loaned to the University for the purpose of constructing and renovating various educational facilities and to pay certain costs of issuance.

The Series 2015 Bonds mature on July 1, 2045 and are subject to prior redemption. The initial Bank Purchase Mode Term shall expire on July 1, 2025. Upon expiration, the Borrower may elect to convert the Bond to a new Mode (with weekly or flexible interest rate periods), a new Bank Purchase Mode Term (but not beyond the Maturity Date), or the bonds shall be subject to mandatory tender for purchase. The decision as to whether the Bond is converted to a new Bank Purchase Mode or a new Mode is the sole decision of the Borrower.

The Series 2015 Bonds bear interest during the initial Bank Purchase Mode Term at a fixed bank rate of 2.77%. Principal outstanding on the 2015 Bonds as of June 30, 2017 and 2016 was $14,785,000 and $15,115,000.

The Series 2008A, 2009A, and 2009B Bonds are secured by loan agreements with the Authority. The Series 2014 and 2015 Bonds are a direct purchase from PNC Bank, National Association and do not require a letter of credit. The bond issuances are subject to certain covenants, primarily financial coverage ratios, with which the University has reported compliance.

(Continued)

NOTE 10 - BONDS PAYABLE AND LINE OF CREDIT (Continued)

Long-term debt consisted of the following at June 30:

	Original Principal	2017	2016
Series 2008A Bonds	$ 42,225,000	$ 41,265,000	$ 41,265,000
Series 2009A Bonds	29,845,000	29,845,000	29,845,000
Series 2009B Bonds	15,155,000	11,850,000	13,535,000
Series 2014 Bonds	32,500,000	32,500,000	32,500,000
Series 2015 Bonds	15,115,000	14,785,000	15,115,000
		130,245,000	132,260,000
Less: Bond issuance costs		(1,276,999)	(1,333,374)
		$ 128,968,001	$ 130,926,626

Bond maturities are as follows:

2018	$ 2,095,000
2019	2,440,000
2020	2,780,000
2021	3,220,000
2022	3,365,000
Thereafter	116,345,000
	$ 130,245,000

Interest expense was approximately $3,300,000 and $3,000,000 for 2017 and 2016, respectively.

The University maintains a line of credit agreement with a bank in the amount of $20,000,000 with a maturity date of December 31, 2017 and an interest rate of LIBOR plus 125 basis points. As of June 30, 2017 and 2016, there were no outstanding borrowings on the agreement.

NOTE 11 - INTEREST RATE SWAP AGREEMENTS

As a strategy to maintain acceptable levels of exposure to the risk of interest rate fluctuations, the University entered into an interest rate swap agreement in January 2002. This interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the University to receive interest from the counterparty at 68% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 4.24% on a notional amount of $43,000,000 at June 30, 2017 and 2016. The average rate received during 2017 and 2016 was .52% and .22%, respectively, and the average interest rate paid for 2017 and 2016 was 4.24%. The interest rate swap matures in 2032. Total interest paid during 2017 and 2016 was $1,606,352 and $1,730,634, respectively, and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap to be amortized in the next fiscal year is $1,464,563.

NOTE 11 - INTEREST RATE SWAP AGREEMENTS (Continued)

In March 2003, the University entered into an additional interest rate swap agreement. The interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the University to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.57% on a notional amount of $10,500,000 at June 30, 2017 and 2016. The average rate received during 2017 and 2016 was .53% and .23%, respectively, and the average interest rate paid for 2017 and 2016 was 3.57%. The interest rate swap matures in 2018. Total interest paid during 2017 and 2016 was $320,865 and $350,843, respectively, and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap to be amortized in the next fiscal year is $284,592.

In February 2006, the University entered into a third interest rate swap agreement. The interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the University to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.59% on a notional amount of $10,625,000 and $11,225,000 at June 30, 2017 and 2016, respectively. The average rate received during 2017 and 2016 was .53% and .23%, respectively, and the average interest rate paid for 2017 and 2016 was 3.59%. The interest rate swap matures in 2036. Total interest paid during 2017 and 2016 was $328,965 and $378,192, respectively, and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap to be amortized in the next fiscal year is $306,712.

Under the agreements, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements are recorded at fair value with subsequent changes in fair value included in the change in net assets in the statement of activities. The valuation of the three interest rate swaps at June 30, 2017 and 2016 resulted in a liability of $16,182,083 and $22,453,210, respectively.

NOTE 12 - NET ASSETS

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

	2017	2016
Scholarship and student support programs	$ 52,208,452	$ 33,903,333
Building and equipment maintenance	29,546,918	21,534,415
Library and department support programs	19,736,737	21,451,631
Faculty and academic support	18,360,454	12,447,686
Annuity trust agreements	11,769,296	10,178,756
Timing restriction	2,694,621	3,280,112
Other	2,241,604	5,503,449
	$ 136,558,082	$ 108,299,382

(Continued)

NOTE 12 - NET ASSETS (Continued)

Permanently restricted net assets are restricted to:

	2017	2016
Scholarship and student support programs	$ 227,122,037	$ 223,417,370
Faculty and academic support	76,230,205	76,117,562
Library and department support programs	48,806,406	44,354,593
Split-interest agreements and perpetual trusts	16,888,008	17,538,148
Building and equipment maintenance	2,221,004	2,221,004
Unrestricted use	5,768,098	4,223,607
	$ 377,035,758	$ 367,872,284

Net assets released from donor restrictions:

	2017	2016
Purpose restrictions accomplished - primarily scholarship and instructional support	$ 18,504,717	$ 17,271,642
Gifts and grants utilized for operations	2,303,348	1,184,236
Time restrictions expired - death of annuity beneficiary	413,535	159,506
Total restrictions released for operations	21,221,600	18,615,384
Released for capital projects	10,129,946	12,310,955
	$ 31,351,547	$ 30,926,339

NOTE 13 - ENDOWMENT

The University's endowment consists of approximately 1,000 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 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 Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA.

In addition, the endowment includes permanently restricted pledges receivable, which total $43,955,973 and $46,559,518 for 2017 and 2016, and beneficial interest in perpetual trusts, which total $10,467,203 and $10,015,197 for 2017 and 2016, are not legally subject to SPMIFA as the University does not hold these assets in the form of cash.

(Continued)

NOTE 13 - ENDOWMENT (Continued)

In accordance with SPMIFA, 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 June 30, 2017 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (387,886)	$ 72,252,224	$ 369,990,040	$ 441,856,378
Board-designated endowment funds	227,282,769	-	-	227,282,769
Total endowment funds	$ 226,894,883	$ 72,252,224	$ 369,990,040	$ 669,139,147

The composition of net assets by type of endowment fund at June 30, 2016 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,892,315)	$ 47,218,565	$ 360,141,963	$ 403,468,213
Board-designated endowment funds	211,100,177	-	-	211,100,177
Total endowment funds	$ 207,207,862	$ 47,218,565	$ 360,141,963	$ 614,568,390

Changes in endowment net assets for the year ended June 30, 2017 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 207,207,862	$ 47,218,565	$ 360,141,963	$ 614,568,390
Investment income and realized gain	14,562,753	10,932,135	-	25,494,888
Unrealized gain	16,515,073	32,058,670	-	48,573,743
Total investment return	31,077,826	42,990,805	-	74,068,631
Contributions received	980,573	-	8,637,930	9,618,503
Change in split-interest agreements	(187,991)	474,951	-	286,960
Appropriation of endowment assets for expenditure	(14,212,670)	(18,474,287)	-	(32,686,957)
Transfer of net assets	2,029,283	43,190	1,211,147	3,283,620
Endowment net assets, end of year	$ 226,894,883	$ 72,252,224	$ 369,990,040	$ 669,139,147

NOTE 13 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2016 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 237,195,678	$ 80,427,925	$ 326,163,026	$ 643,786,629
Investment income and realized gain	8,387,823	15,041,496	-	23,429,319
Unrealized loss	(24,645,013)	(30,121,684)	-	(54,766,697)
Total investment return	(16,257,190)	(15,080,188)	-	(31,337,378)
Contributions received	293,015	-	31,915,249	32,208,264
Change in split-interest agreements	-	(889,334)	-	(889,334)
Appropriation of endowment assets for expenditure	(14,023,641)	(17,469,080)	-	(31,492,721)
Transfer of net assets	-	229,242	2,063,688	2,292,930
Endowment net assets, end of year	$ 207,207,862	$ 47,218,565	$ 360,141,963	$ 614,568,390

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 SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $387,886 and $3,892,315 at June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The University has adopted investment and spending policies for endowment assets that attempt 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 produce results that earn an average annual total return, net of all fees and expenses over a rolling five-year period to equal the spending rate plus inflation. The University expects its endowment funds to provide an average rate of return of approximately 8% annually over time. 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 has a policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund's average fair value over the previous twelve quarters. 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 3% annually. 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 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the University's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

To maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, the University uses the fair value hierarchy. GAAP describes three levels of inputs that may be used to measure fair value:

> Level 1: Inputs include quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Inputs include significant other 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.
>
> Level 3: Inputs include significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Investments: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include short-term investments, government securities, domestic common stocks, and foreign common stocks. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics, or discounted cash flows. For investments, other than alternative investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 securities include corporate bonds.

Some alternative investments are valued using the net asset value (NAV) (or its equivalent) provided by the fund as a practical expedient. Those investments include certain domestic common stocks, foreign common stocks, and diversifying assets, and are excluded from the valuation hierarchy. Unfunded commitments to diversifying assets funds totaled $24,700,000 as of June 30, 2017.

For alternative investments that do not have sufficient activity or liquidity within the fund and the NAV provided by the fund is not used as a practical expedient, the NAV provided by the fund is utilized to determine fair value and are classified within Level 3 of the valuation hierarchy. These Level 3 securities include private equity, real assets, and certain diversifying assets.

Private equity funds invest in venture capital and buyout opportunities and special situations. The venture capital and buyout opportunities funds have lives that range from 10 to 12 years and cannot be sold. Distributions are received as individual portfolio holdings are liquidated and are valued at NAV, using the market approach. Approximately 42% of the private equity exposure is via fund-of-funds, with the remaining 58% invested directly with limited partnerships. Unfunded commitments to private equity funds totaled $51,054,739 as of June 30, 2017.

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Special situations represents a single fund engaged in making special opportunities private equity investments with the purpose of seeking capital appreciation from turnaround transactions, distressed hard-asset investments and control and non-control oriented private and public distressed equity and debt investments. The Partnership's strategy emphasizes investment in special opportunities private equity funds as a fund of funds. The University will receive distributions over the next 3 to 7 years.

Real assets funds consist of natural resource funds, and real estate funds. Natural resource funds primarily invest in mid-stream and down-stream oil and gas opportunities and power generation in traditional power plants, as well as solar and wind generation. These limited partnerships investments began in 2005. Most partnerships have a 10 to 12 year life and valuation techniques include, but are not limited to, the income approach and public market equivalents methods. Funds cannot be sold, but distributions received as underlying investments are liquidated. Unfunded commitments to real asset funds totaled $37,203,662 as of June 30, 2017.

Real estate funds invest across the major four categories of commercial real estate: office, industrial, multi-family, and retail. These are limited partnerships with 10 to 12 year lives and cannot be sold. The underlying investments in the real estate funds are valued using comparable sales, dividend discount, and income approach methods. Distributions are made as underlying investments are sold.

Other Investments: The fair value is estimated using appraisals that are observable or that can be corroborated by observable market data, and therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial Interest in Lead and Remainder 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.

Beneficial Interest in Perpetual Trusts: The fair value of beneficial interest in perpetual trusts is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates assumptions that market participants would use in estimating future distributed income. The University is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. If not readily comparable to published data, then the University would have to develop a model similar to the above for a Level 3 input. Since the University does not have the ability to redeem these beneficial interests on a short-term basis, they are classified as Level 3 valuations.

Interest Rate Swap Agreement: The fair values of the interest rate swaps are based on third-party proprietary valuation models that calculate the values based on recognized financial principles and current market rates, and are thought to provide a reasonable estimate of fair value using the market approach. The interest rate swap is classified within Level 2 of the valuation hierarchy.

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 June 30, 2017 and 2016:

	2017				
	Fair Value	Level 1	Level 2	Level 3	NAV
Assets					
Securities					
Short-term investments	$ 43,458,835	$ 43,458,835	$ -	$ -	$ -
Government securities	21,353,366	21,353,366	-	-	-
Corporate bonds	13,370,018	-	13,370,018	-	-
Domestic common stocks	134,945,507	66,547,446	-	-	68,398,061
Foreign common stocks	122,807,244	4,746,912	-	-	118,060,332
Total securities	335,934,970	136,106,559	13,370,018	-	186,458,393
Private equity					
Venture capital/buy-out	70,931,275	-	-	70,931,275	-
Special situations	4,980,813	-	-	4,980,813	-
Total private equity	75,912,088	-	-	75,912,088	-
Real assets					
Real estate	11,406,498	-	-	11,406,498	-
Natural resources	24,825,296	-	-	24,825,296	-
Total real assets	36,231,794	-	-	36,231,794	-
Diversifying assets					
Absolute return Strategies	9,799,329	-	-	-	9,799,329
Direct lending	10,293,732	-	-	10,293,732	-
Equity long/short	103,423,971	-	-	-	103,423,971
Global macro	200,027	-	-	-	200,027
Distressed	48,913,401	-	-	21,709,662	27,203,739
Short credit	695,042	-	-	-	695,042
Total diversifying assets	173,325,502	-	-	32,003,394	141,322,108
Other investments	629,000	-	629,000	-	-
Cash surrender value of life insurance	5,291,810	-	-	5,291,810	-
Beneficial interest in lead and remainder trusts	8,751,527	-	-	8,751,527	-
Beneficial interest in perpetual trusts	10,467,203	-	-	10,467,203	-
	$ 646,543,894	$ 136,106,559	$ 13,999,018	$ 168,657,816	$ 327,780,501
Liabilities					
Fair value of interest rate swap	$ (16,182,083)	$ -	$ (16,182,083)	$ -	$ -

(Continued)

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2016				
	Fair Value	Level 1	Level 2	Level 3	NAV
Assets					
Securities					
Short-term investments	$ 55,778,281	$ 55,778,281	$ -	$ -	-
Government securities	19,745,263	19,745,263	-	-	-
Corporate bonds	14,622,022	139,763	14,482,259	-	-
Domestic common stocks	113,688,022	64,759,015	-	-	48,929,007
Foreign common stocks	109,171,252	12,534,222	-	-	96,637,030
Total securities	313,004,840	152,956,544	14,482,259	-	145,566,037
Private equity					
Venture capital/buy-out	75,196,764	-	-	75,196,764	-
Special situations	6,331,889	-	-	6,331,889	-
Total private equity	81,528,653	-	-	81,528,653	-
Real assets					
Real estate	13,087,121	-	-	13,087,121	-
Natural resources	19,638,004	-	-	19,638,004	-
Total real assets	32,725,125	-	-	32,725,125	-
Diversifying assets					
Absolute return Strategies	1,730,260	-	-	-	1,730,260
Direct lending	4,422,521	-	-	4,422,521	-
Equity long/short	96,230,104	-	-	-	96,230,104
Global macro	239,015	-	-	-	239,015
Distressed	38,841,166	-	-	14,530,641	24,310,525
Short credit	952,375	-	-	-	952,375
Total diversifying assets	142,415,441	-	-	18,953,162	123,462,279
Other investments	629,000	-	629,000	-	-
Cash surrender value of life insurance	5,226,278	-	-	5,226,278	-
Beneficial interest in lead and remainder trusts	9,992,206	-	-	9,992,206	-
Beneficial interest in perpetual trusts	10,015,196	-	-	10,015,196	-
	$ 595,536,739	$ 152,956,544	$ 15,111,259	$ 158,440,620	$ 269,028,316
Liabilities					
Fair value of interest rate swap	$ (22,453,210)	$ -	$ (22,453,210)	$ -	$ -

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	2017					
	Private Equity	Real Assets	Diversifying Assets	Cash Surrender Value of Life Insurance	Beneficial Interest in Lead and Remainder Trusts	Beneficial Interest in Perpetual Trusts
Beginning balance	$ 81,528,653	$ 32,725,125	$ 18,953,162	$ 5,226,278	$ 9,992,206	$ 10,015,196
Total realized/unrealized gains	6,540,197	6,909,477	3,508,707	-	-	-
Purchases	12,649,095	8,816,920	11,006,261	-	-	-
Settlements	(24,805,857)	(12,219,728)	(1,464,736)	-	-	-
Payment received	-	-	-	-	(588,694)	-
Change in cash surrender value of life insurance	-	-	-	65,532	-	-
Change in value of split-interest agreements	-	-	-	-	(651,985)	452,007
	$ 75,912,088	$ 36,231,794	$ 32,003,394	$ 5,291,810	$ 8,751,527	$ 10,467,203

	2016					
	Private Equity	Real Assets	Diversifying Assets	Cash Surrender Value of Life Insurance	Beneficial Interest in Lead and Remainder Trusts	Beneficial Interest in Perpetual Trusts
Beginning balance	$ 93,061,489	$ 35,213,806	$ 14,758,860	$ 5,061,829	$ 11,496,808	$ 10,904,530
Total realized/unrealized gains (losses)	2,569,066	(1,141,752)	(1,532,318)	-	-	-
Purchases	10,417,906	6,409,849	5,900,000	-	-	-
Settlements	(24,519,809)	(7,756,778)	(173,380)	-	-	-
Payment received	-	-	-	-	(1,657,219)	-
Change in cash surrender value of life insurance	-	-	-	164,449	-	-
Change in value of split-interest agreements	-	-	-	-	152,617	(889,334)
	$ 81,528,653	$ 32,725,125	$ 18,953,162	$ 5,226,278	$ 9,992,206	$ 10,015,196

As of June 30, 2017 and 2016, the unrealized loss still held in Level III investments was $8,534,046 and $28,882,177, respectively.

NOTE 14 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents information regarding funds with fair value that is determined using the net asset value (or its equivalent) provided by the fund as the practical expedient:

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Domestic common stocks (a)	$ 68,398,061	$ -	Daily to annually	1-90 days
Foreign common stocks (b)	118,060,332	-	Daily to 3 years	1-90 days
Diversifying assets (c)	141,322,108	-	Monthly to 3 years	30-90 days
	$ 327,780,501	$ -		

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Domestic common stocks (a)	$ 48,929,007	$ -	Daily to annually	1-90 days
Foreign common stocks (b)	96,637,030	-	Daily to 3 years	1-90 days
Diversifying assets (c)	123,462,279	-	Monthly to 3 years	30-90 days
	$ 269,028,316	$ -		

(a) Domestic common stock investments are held in commingled funds. Their underlying assets are daily priced and traded public equities; however, trades in and out of the investment vehicle are executed at net asset value (NAV) using the market approach. Redemption frequency for these commingled funds is typically monthly or quarterly.

(b) Foreign common stock investments are held in commingled funds. Their underlying assets are daily priced and traded public equities; however, trades in and out of the investment vehicle are executed at NAV, using the market approach. Redemption frequency for these commingled funds is typically monthly.

(c) Diversifying assets consist of long/short equity funds and hedge funds that invest across the capital structure or exclusively in credit. Diversifying assets maintains residual exposure to global macro funds that are in the process of being terminated. Underlying public equity positions are generally valued using market quotes and public credit positions are generally valued using dealer pricing. Private equity and credit positions are generally valued based on the respective manager's valuation policy. Investments within diversifying assets are generally structured as comingled funds with redemption periods ranging from monthly to rolling three-year periods, with various lock-ups.