

DEPAUW UNIVERSITY
FINANCIAL STATEMENTS
June 30, 2018 and 2017

Greencastle, Indiana
FINANCIAL STATEMENTS
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 LLP

Crowe LLP

Indianapolis, Indiana
September 28, 2018

DEPAUW UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,175,896	\$ 7,160,770
Cash restricted for capital projects	1,886,132	1,781,975
Accounts receivable (net of allowance of \$900,000 for 2018 and \$857,000 for 2017)	2,876,346	1,262,741
Inventories	176,499	182,000
Prepaid expenses	1,829,497	1,846,739
Contributions receivable, net (Note 2)	81,994,523	79,016,506
Student notes receivable (net of allowance for uncollectible notes of \$460,000 for 2018 and \$448,000 for 2017)	6,534,524	6,212,577
Other notes receivable, mortgages and promissory notes	315,238	487,143
Investments (Note 3)	669,846,832	621,404,354
Real estate held for resale	-	2,953,416
Other investments	629,000	629,000
Property, plant and equipment (Note 4)	269,262,395	264,302,242
Cash surrender value of life insurance	5,384,466	5,291,810
Beneficial interest in lead and remainder trusts (Note 5)	7,899,744	8,751,527
Beneficial interest in perpetual trusts (Note 6)	<u>10,793,901</u>	<u>10,467,203</u>
 Total assets	 <u>\$ 1,060,604,993</u>	 <u>\$ 1,011,750,003</u>
 LIABILITIES		
Accounts payable and other accruals	\$ 5,974,166	\$ 5,698,724
Interest payable	1,326,499	1,370,301
Deposits, prepayments and other liabilities	2,901,724	3,825,599
Capital leases	617,149	901,986
Note payable	1,013,773	1,128,538
Dining service program advance	5,585,714	6,041,420
Fair value of interest rate swap (Note 11)	13,310,013	16,182,083
Annuity and trust liability (Note 7)	13,404,240	13,224,155
Advances from federal government for student loans	3,323,883	3,323,883
Accumulated postretirement benefit obligation (Note 8)	17,235,528	18,120,918
Bonds payable (Note 10)	<u>128,804,759</u>	<u>128,968,001</u>
Total liabilities	193,497,448	198,785,608
 NET ASSETS		
Unrestricted	316,944,443	299,370,555
Temporarily restricted (Note 12)	145,265,986	136,558,082
Permanently restricted (Note 12)	<u>404,897,116</u>	<u>377,035,758</u>
Total net assets	<u>867,107,545</u>	<u>812,964,395</u>
 Total liabilities and net assets	 <u>\$ 1,060,604,993</u>	 <u>\$ 1,011,750,003</u>

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Tuition and fees	\$ 100,078,273	\$ -	\$ -	\$ 100,078,273
Grants and scholarships	<u>(60,509,362)</u>	-	-	<u>(60,509,362)</u>
Net tuition and fees	39,568,911	-	-	39,568,911
Contributions	6,104,612	911,846	27,094,236	34,110,694
Investment return designated for current operations (Note 3)	16,350,527	21,114,013	-	37,464,540
Federal grants	-	251,004	-	251,004
Auxiliary services	19,896,717	-	-	19,896,717
Other income	4,945,858	223,246	-	5,169,104
Releases (from) to restriction (Note 12)	<u>21,983,781</u>	<u>(22,475,395)</u>	<u>491,614</u>	<u>-</u>
	108,850,406	24,714	27,585,850	136,460,970
Expenses				
Instruction	48,411,279	-	-	48,411,279
Student services	19,908,510	-	-	19,908,510
Academic support and library	15,038,831	-	-	15,038,831
Management and general	8,862,817	-	-	8,862,817
Fundraising and alumni support	4,641,120	-	-	4,641,120
Auxiliary services	<u>20,229,377</u>	-	-	<u>20,229,377</u>
	117,091,934	-	-	117,091,934
Change in net assets from operations	(8,241,528)	24,714	27,585,850	19,369,036
Non-operating activities				
Gain on interest rate swap (Note 11)	2,872,070	-	-	2,872,070
Other changes in accumulated postretirement benefit obligations	(826,569)	-	-	(826,569)
Net assets released for capital projects (Note 12)	13,525,282	(13,525,282)	-	-
Change in value of split-interest agreements	213,632	40,757	275,508	529,897
Non-operating miscellaneous revenue	100,000	-	-	100,000
Voluntary retirement payout	(1,025,760)	-	-	(1,025,760)
Investment return after amounts designated for current operations (Note 3)	<u>10,956,761</u>	<u>22,167,715</u>	-	<u>33,124,476</u>
	25,815,416	8,683,190	275,508	34,774,114
Change in net assets	17,573,888	8,707,904	27,861,358	54,143,150
Net assets at beginning of year	<u>299,370,555</u>	<u>136,558,082</u>	<u>377,035,758</u>	<u>812,964,395</u>
Net assets, end of year	<u>\$ 316,944,443</u>	<u>\$ 145,265,986</u>	<u>\$ 404,897,116</u>	<u>\$ 867,107,545</u>

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Tuition and fees	\$ 98,980,365	\$ -	\$ -	\$ 98,980,365
Grants and scholarships	<u>(58,144,790)</u>	<u>-</u>	<u>-</u>	<u>(58,144,790)</u>
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) to restriction (Note 12)	<u>20,465,712</u>	<u>(21,221,600)</u>	<u>755,888</u>	<u>-</u>
	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	<u>19,060,092</u>	<u>-</u>	<u>-</u>	<u>19,060,092</u>
	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)	<u>16,865,156</u>	<u>24,503,811</u>	<u>13,191</u>	<u>41,382,158</u>
	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)	<u>1,068,890</u>	<u>-</u>	<u>(1,068,890)</u>	<u>-</u>
Change in net assets	26,215,249	28,258,700	9,163,474	63,637,423
Net assets at beginning of year	<u>273,155,306</u>	<u>108,299,382</u>	<u>367,872,284</u>	<u>749,326,972</u>
Net assets, end of year	<u>\$ 299,370,555</u>	<u>\$ 136,558,082</u>	<u>\$ 377,035,758</u>	<u>\$ 812,964,395</u>

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 54,143,150	\$ 63,637,423
Items not requiring (providing) cash		
Depreciation and amortization	11,824,067	11,165,780
Actuarial change in postretirement benefit obligation	(694,627)	(1,512,146)
Net realized/unrealized gain on investments	(70,857,844)	(74,594,958)
Contributed stock	(4,330,654)	(7,089,615)
Contributions restricted for long-term investment	(3,394,047)	(11,241,474)
Contributions restricted for capital projects	(14,769,192)	(5,159,976)
Change in fair value of interest rate swap	(979,236)	(4,014,945)
Changes in		
Accounts receivable	(1,613,605)	142,330
Inventories, prepaid and other assets	22,743	227,067
Contributions receivable	1,352,637	3,808,748
Student notes receivable	(321,947)	(435,900)
Real estate held for resale	2,953,416	(112,708)
Net change in cash surrender value of life insurance	(92,656)	(65,532)
Beneficial interest in remainder and perpetual trusts	525,085	788,673
Accounts payable and other accruals	(648,433)	424,424
Interest payable	(43,802)	(31,021)
Annuity and trust liability	180,085	(202,400)
Accumulated postretirement benefit obligation	(190,763)	186,398
Net cash from operating activities	<u>(26,935,623)</u>	<u>(24,079,832)</u>
Cash flows from investing activities		
Stock contributions restricted for capital projects	(559,820)	(1,502,379)
Purchases of property, plant and equipment	(17,067,424)	(21,954,997)
Proceeds from sales of securities	110,811,288	86,813,336
Purchases of securities	(88,395,922)	(63,948,673)
Payments on notes receivable and other investing activities	171,905	139,524
Net cash from investing activities	<u>4,960,027</u>	<u>(453,189)</u>
Cash flows from financing activities		
Stock contributions restricted for capital projects	559,820	1,502,379
Proceeds from contributions restricted for long-term investment	3,394,047	11,241,474
Proceeds from contributions restricted for capital projects	14,769,192	5,159,976
Bond issuance costs paid	(124,617)	-
Dining service program advance	-	4,500,000
Net settlements on interest rate swaps	(1,892,834)	(2,256,182)
Payments on capital leases	(400,964)	(421,135)
Payments on notes payable	(114,765)	-
Principal payments on bonds payable	(2,095,000)	(2,015,000)
Issuance of bonds payable	2,000,000	-
Net cash from financing activities	<u>16,094,879</u>	<u>17,711,512</u>
Net change in cash and cash equivalents	(5,880,717)	(6,821,509)
Cash and cash equivalents, beginning of year	<u>8,942,745</u>	<u>15,764,254</u>
Cash and cash equivalents, end of year	<u>\$ 3,062,028</u>	<u>\$ 8,942,745</u>
Supplemental cash flows information		
Interest paid	\$ 5,635,751	\$ 5,214,961
Purchases of property, plant and equipment in accounts payable	1,887,235	1,751,738
Equipment obtained through capital lease financing	116,127	51,860

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, 2018 and 2017. At June 30, 2018 and June 30, 2017, 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)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018 and 2017, the University's cash accounts exceeded federally insured limits by approximately \$2,101,000 and \$8,084,000. 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. The University also maintains a number of donor-funded institutional loan programs which comprise the minority of the total loan portfolio.

At June 30, 2018 and 2017, the following amounts were past due under the loan programs:

<u>June 30</u>	<u>1 – 270 Days Past due</u>	<u>270 Days - 2 Years Past due</u>	<u>2 - 5 Years Past due</u>	<u>5 + Years Past due</u>	<u>Total Past Due</u>
2018	\$ 465,623	\$ 184,488	\$ 164,118	\$ 285,724	\$1,099,953
2017	\$ 152,110	\$ 71,521	\$ 251,332	\$ 248,616	\$ 723,579

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

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.

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 its fair value. No impairment is thought to exist at June 30, 2018 or 2017.

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, 2018 and 2017 amounted to \$563,300 and \$754,533, 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.

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, 2017, the entire amount of \$6,600,000 had been advanced to the University. 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, 2018 and 2017, the balance of the advance was \$5,585,714 and \$6,041,420, 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.

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.

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.

(Continued)

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

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, 2018 and 2017, 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 \$103,587,997 and \$99,859,878 and total expenses were \$117,091,934 and \$114,166,367 for the years ended June 30, 2018 and 2017.

Clarification of Donor Intent: During 2017, 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.

Recently Issued Accounting Pronouncements: Accounting Standards Update (ASU) 2016-14 affects not-for-profit entities (NFPs) and the users of their general-purpose financial statements. This ASU makes certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. This ASU requires changes in presentation and disclosures to help NFPs provide more relevant information about their resources to donors, grantors, creditors and other stakeholders. The University has not yet implemented this ASU and is in the process of assessing the effect on the University's financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2018, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2018. Management has performed their analysis through September 28, 2018, the date the financial statements were issued.

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30:

	-----2 0 1 8-----		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Due within one year	\$ 9,190,485	\$ 6,223,847	\$ 15,414,332
Due in one to five years	10,968,000	28,836,661	39,804,661
Due in more than five years	<u>1,600,000</u>	<u>42,622,856</u>	<u>44,222,856</u>
	21,758,485	77,683,364	99,441,849
Allowance for uncollectible contributions	<u>(1,034,000)</u>	<u>(3,281,000)</u>	<u>(4,315,000)</u>
	20,724,485	74,402,364	95,126,849
Discount for time value of money	<u>(1,083,707)</u>	<u>(12,048,619)</u>	<u>(13,132,326)</u>
	<u>\$ 19,640,778</u>	<u>\$ 62,353,745</u>	<u>\$ 81,994,523</u>
	-----2 0 1 7-----		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>5,825,000</u>	<u>36,143,484</u>	<u>41,968,484</u>
	40,997,781	56,532,576	97,530,357
Allowance for uncollectible contributions	<u>(1,845,000)</u>	<u>(2,313,000)</u>	<u>(4,158,000)</u>
	39,152,781	54,219,576	93,372,357
Discount for time value of money	<u>(4,092,248)</u>	<u>(10,263,603)</u>	<u>(14,355,851)</u>
	<u>\$ 35,060,533</u>	<u>\$ 43,955,973</u>	<u>\$ 79,016,506</u>

Discount rates used to estimate the present value of future year receivables ranged from 1.2% to 6.0% for 2018 and 2017. As of June 30, 2018 and 2017, 53% and 48% of gross contributions receivable were due from three contributors, respectively.

Contributions receivable designated for specific purposes are as follows:

	<u>2018</u>	<u>2017</u>
Faculty development	\$ 3,447,946	\$ 3,315,768
Scholarships	31,261,158	29,023,651
Campus and facilities	17,240,859	30,400,930
Programs	29,627,588	15,835,446
Any activity of the University	<u>416,972</u>	<u>440,711</u>
	<u>\$ 81,994,523</u>	<u>\$ 79,016,506</u>

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 - INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 58,095,162	\$ 43,458,835
Government securities	40,845,375	21,353,366
Corporate bonds	12,893,475	13,370,018
Domestic common stocks	141,295,641	134,945,507
Foreign common stocks	122,646,637	122,807,244
Private equity		
Venture capital/buy-out	73,183,912	70,931,275
Special situations	<u>9,713,603</u>	<u>4,980,813</u>
Total private equity	82,897,515	75,912,088
Real assets		
Real estate	13,946,183	11,406,498
Natural resources	<u>31,809,159</u>	<u>24,825,296</u>
Total real assets	45,755,342	36,231,794
Diversifying assets		
Absolute return strategies	10,014,053	9,799,329
Direct lending	11,965,865	10,293,732
Equity long/short	90,621,627	103,423,971
Global macro	107,617	200,027
Distressed	52,079,468	48,913,401
Short credit	<u>629,055</u>	<u>695,042</u>
Total diversifying assets	<u>165,417,685</u>	<u>173,325,502</u>
 Totals	 <u>\$ 669,846,832</u>	 <u>\$ 621,404,354</u>

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.

	<u>2018</u>	<u>2017</u>
Dividends and interest, net of investment expenses of \$2,875,128 and \$3,563,847 for 2018 and 2017	\$ (268,828)	\$ (107,786)
Net realized gains on investments	38,342,733	26,008,076
Net unrealized gains on investments	<u>32,515,111</u>	<u>48,586,882</u>
Total return on investments	70,589,016	74,487,172
 Investment return designated for current operations	 <u>(37,464,540)</u>	 <u>(33,105,014)</u>
Investment return in excess of amounts designated for current operations	<u>\$ 33,124,476</u>	<u>\$ 41,382,158</u>

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Campus grounds and buildings	\$ 373,605,110	\$ 364,193,298
Furnishings and equipment	44,766,037	43,506,574
Books and scientific apparatus	3,094,126	2,994,410
Inn at DePauw and Student Social Center	14,976,195	14,853,560
Other property held	<u>13,120,245</u>	<u>13,028,154</u>
	449,561,713	438,575,996
Accumulated depreciation	<u>(201,867,114)</u>	<u>(189,806,087)</u>
	247,694,599	248,769,909
Construction in progress	10,750,623	5,026,676
Land	<u>10,817,173</u>	<u>10,505,657</u>
	<u>\$ 269,262,395</u>	<u>\$ 264,302,242</u>

Construction in progress at June 30, 2018 primarily includes expenditures related to renovations to the Robert G. Bottoms Alumni and Development Center. Capitalized interest included in construction in progress at June 30, 2018 and 2017 is \$246 and \$60,997, respectively. At June 30, 2018 the University had committed \$42,265,539 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 a 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 3.4% and 2.4% were used for the years ended June 30, 2018 and 2017, respectively. The estimated fair value of these trusts as of June 30, 2018 and 2017 were \$7,899,744 and \$8,751,527, respectively.

(Continued)

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 \$10,793,901 at June 30, 2018 and \$10,467,203 at June 30, 2017, 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 \$13,404,240 and \$13,224,155 at June 30, 2018 and 2017, 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 2018 and 2017.

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 2018 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)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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:

	<u>2018</u>	<u>2017</u>
Accumulated postretirement benefit obligation at beginning of year	\$ 18,120,918	\$ 19,446,666
Service cost	258,655	335,095
Interest cost	669,284	676,361
Actuarial gains – net	(694,627)	(1,512,146)
Benefits paid	<u>(1,118,702)</u>	<u>(825,058)</u>
Accrued postretirement benefit obligation at end of year	<u>\$ 17,235,528</u>	<u>\$ 18,120,918</u>
	<u>2018</u>	<u>2017</u>
Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consists of:		
Prior service cost	\$ (3,782,099)	\$ (5,303,295)
Net (gain) loss	<u>(519,703)</u>	<u>174,924</u>
Amount recognized	<u>\$ (4,301,802)</u>	<u>\$ (5,128,371)</u>

Employer contributions to the plan during 2018 and 2017, respectively, were \$1,118,702 and \$825,058.

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, 2018 and 2017, the net periodic postretirement benefit cost was \$(593,257) and \$(509,740), 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 6.5% for 2020, then to 5.9% in 2021 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, 2018, adjusted for benefits attributable to estimated future employee service. The discount rate used in determining the accumulated postretirement benefit obligations was 4.09% and 3.80% at June 30, 2018 and 2017, respectively. The discount rate to determine the post-retirement benefit costs was 3.80% and 3.57% at June 30, 2018 and 2017, respectively. The impact on the liability of a 1% increase in rates or a 1% decrease in rates would be \$1,192,354 or (\$1,087,078), respectively.

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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:

2019	\$1,146,095
2020	1,214,301
2021	1,290,016
2022	1,419,231
2023	1,470,010
Thereafter	8,235,496

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 \$3,208,083 and \$3,133,924 for the years ended June 30, 2018 and 2017.

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, 2018 and 2017, the University was under the weekly interest rate mode, and interest was stated at 1.48% and 0.9%, respectively. 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, 2018 and 2017 was \$41,265,000.

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 maturity of the Bonds. Principal outstanding on the 2009 Bonds as of June 30, 2018 and 2017 was \$39,935,000 and \$41,695,000.

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 0.70 times the one month LIBOR rate, plus 55 basis points. At June 30, 2018 and 2017, the University interest rate was stated at 1.95% and 1.41%, respectively. Principal outstanding on the 2014 Bonds as of June 30, 2018 and 2017 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, 2018 and 2017 was \$14,450,000 and \$14,785,000.

On April 30, 2018, The Indiana Finance Authority issued \$40,000,000 of Educational Facilities Revenue Bonds, Series 2018 as a Bond Purchase and Loan Agreement between the University and BMO Harris Investment Company LLC. The funds were loaned to the University for the purpose of constructing and renovating various facilities and to pay certain costs of issuance.

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

The Series 2018 Bonds mature on April 30, 2048 and are subject to prior redemption. The initial Bank Purchase Mode Term shall expire on May 1, 2028. 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 2018 Bonds bear interest during the initial Bank Purchase Mode Term at a variable bank rate equal to the sum of 0.81 times the one month LIBOR rate, plus 93 basis points. Principal outstanding on the 2018 Bonds as of June 30, 2018 was \$2,000,000. The credit facility is a draw-down loan, allowing multiple draws before April 29, 2021. During that draw period, an unused commitment fee of 10 basis points per annum is payable quarterly in arrears. At June 30, 2018, the University interest rate was stated at 2.54%.

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 Series 2018 Bonds are a direct purchase from BMO Harris Investment Company LLC. The bond issuances are subject to certain covenants, primarily financial coverage ratios, with which the University has reported compliance.

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

	Original Principal	<u>2018</u>	<u>2017</u>
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	10,090,000	11,850,000
Series 2014 Bonds	32,500,000	32,500,000	32,500,000
Series 2015 Bonds	15,115,000	14,450,000	14,785,000
Series 2018 Bonds	40,000,000	<u>2,000,000</u>	<u>-</u>
		130,150,000	130,245,000
Less: Bond issuance costs		<u>(1,345,241)</u>	<u>(1,276,999)</u>
		<u>\$ 128,804,759</u>	<u>\$ 128,968,001</u>

Bond maturities are as follows:

2019	\$ 2,440,000
2020	2,780,000
2021	3,220,000
2022	3,365,000
2023	3,515,000
Thereafter	<u>114,830,000</u>
	<u>\$ 130,150,000</u>

Interest expense was approximately \$3,600,000 and \$3,300,000 for 2018 and 2017, respectively.

(Continued)

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

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, 2018 and an interest rate of LIBOR plus 125 basis points. As of June 30, 2018 and 2017, 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, 2018 and 2017. The average rate received during 2018 and 2017 was 1.06% and 0.52%, respectively, and the average interest rate paid for 2018 and 2017 was 4.24%. The interest rate swap matures in 2032. Total interest paid during 2018 and 2017 was \$1,374,938 and \$1,606,352, respectively, and is allocated to various expenses by function on the statement of activities.

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, 2018 and 2017. The average rate received during 2018 and 2017 was 1.09% and 0.53%, respectively, and the average interest rate paid for 2018 and 2017 was 3.57%. The interest rate swap matured on July 1, 2018. Total interest paid during 2018 and 2017 was \$262,681 and \$320,865, respectively, and is allocated to various expenses by function on the statement of activities.

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 \$10,625,000 at June 30, 2018 and 2017, respectively. The average rate received during 2018 and 2017 was 1.09% and 0.53%, respectively, and the average interest rate paid for 2018 and 2017 was 3.59%. The interest rate swap matures in 2036. Total interest paid during 2018 and 2017 was \$253,615 and \$328,965, respectively, and is allocated to various expenses by function on the statement of activities.

In April 2018, the University entered into a fourth 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 81% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 2.44% on a notional amount of \$2,000,000 at June 30, 2018. The average rate received during 2018 was 1.68%, and the average interest rate paid for 2018 was 2.44%. The interest rate swap matures in 2048. Total interest paid during 2018 was \$1,601 and is allocated to various expenses by function on the statement of activities. The expected fair value of the swap is expected to increase as the notional amount accretes to \$6,700,000 by June 30, 2019.

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 four interest rate swaps at June 30, 2018 and three at June 30, 2017 resulted in a liability of \$13,310,013 and \$16,182,083, respectively.

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 - NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Scholarship and student support programs	\$ 66,361,650	\$ 52,121,148
Building and equipment maintenance	17,505,154	35,137,650
Library and department support programs	21,660,707	14,493,657
Faculty and academic support	23,426,173	18,365,022
Annuity trust agreements	11,759,767	11,769,296
Timing restriction	3,630,076	2,694,621
Other	<u>922,459</u>	<u>1,976,688</u>
	<u>\$ 145,265,986</u>	<u>\$ 136,558,082</u>

Permanently restricted net assets are restricted to:

	<u>2018</u>	<u>2017</u>
Scholarship and student support programs	\$ 226,618,144	\$ 216,882,276
Faculty and academic support	86,019,430	84,859,468
Library and department support programs	70,332,813	50,416,906
Split-interest agreements and perpetual trusts	16,681,825	16,888,008
Building and equipment maintenance	2,221,004	2,221,004
Unrestricted use	<u>3,023,900</u>	<u>5,768,096</u>
	<u>\$ 404,897,116</u>	<u>\$ 377,035,758</u>

Net assets released from donor restrictions:

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished - primarily scholarship and instructional support	\$ 21,086,494	\$ 18,504,717
Gifts and grants utilized for operations	1,388,901	2,303,348
Time restrictions expired - death of annuity beneficiary	<u>-</u>	<u>413,535</u>
Total restrictions released for operations	22,475,395	21,221,600
Released for capital projects	<u>13,525,282</u>	<u>10,129,946</u>
	<u>\$ 36,000,677</u>	<u>\$ 31,351,547</u>

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 \$62,353,745 and \$43,955,973 for 2018 and 2017, and beneficial interest in perpetual trusts, which total \$10,793,901 and \$10,467,203 for 2018 and 2017, are not legally subject to SPMIFA as the University does not hold these assets in the form of cash.

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, 2018 was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (229,198)	\$ 94,742,869	\$ 398,067,849	\$ 492,581,520
Board-designated endowment funds	<u>238,268,421</u>	<u>-</u>	<u>-</u>	<u>238,268,421</u>
Total endowment funds	<u>\$ 238,039,223</u>	<u>\$ 94,742,869</u>	<u>\$ 398,067,849</u>	<u>\$ 730,849,941</u>

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 13 - ENDOWMENT (Continued)

The composition of net assets by type of endowment fund at June 30, 2017 was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (387,886)	\$ 72,252,224	\$ 369,990,040	\$ 441,854,378
Board-designated endowment funds	<u>227,282,769</u>	<u>-</u>	<u>-</u>	<u>227,282,769</u>
Total endowment funds	<u>\$ 226,894,883</u>	<u>\$ 72,252,224</u>	<u>\$ 369,990,040</u>	<u>\$ 669,137,147</u>

Changes in endowment net assets for the year ended June 30, 2018 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 226,894,883	\$ 72,252,224	\$ 369,990,040	\$ 669,137,147
Investment income and realized gain	15,000,085	21,384,364	-	36,384,449
Unrealized gain	<u>10,714,824</u>	<u>21,765,595</u>	<u>-</u>	<u>32,480,419</u>
Total investment return	25,714,909	43,149,959	-	68,864,868
Contributions received	1,225	-	27,030,555	27,031,780
Change in split-interest agreements	213,632	326,698	-	540,330
Appropriation of endowment assets for expenditure	(14,738,613)	(22,021,880)	-	(36,760,493)
Transfer of net assets	<u>(46,813)</u>	<u>1,035,868</u>	<u>1,047,254</u>	<u>2,036,309</u>
Endowment net assets, end of year	<u>\$ 238,039,223</u>	<u>\$ 94,742,869</u>	<u>\$ 398,067,849</u>	<u>\$ 730,849,941</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>16,515,073</u>	<u>32,058,670</u>	<u>-</u>	<u>48,573,743</u>
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	<u>2,029,283</u>	<u>42,190</u>	<u>1,210,147</u>	<u>3,281,620</u>
Endowment net assets, end of year	<u>\$ 226,894,883</u>	<u>\$ 72,252,224</u>	<u>\$ 369,990,040</u>	<u>\$ 669,137,147</u>

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 \$229,198 and \$387,886 at June 30, 2018 and 2017, 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.

(Continued)

NOTE 13 - ENDOWMENT (Continued)

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.

(Continued)

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

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 \$19,374,250 as of June 30, 2018.

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 \$41,964,021 as of June 30, 2018.

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 \$36,141,709 as of June 30, 2018.

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.

(Continued)

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

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)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018 and 2017:

	----- 2 0 1 8 -----				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Assets					
Securities					
Short-term investments \$	58,095,162	\$ 58,095,162	\$ -	\$ -	\$ -
Government securities	40,845,375	40,845,375	-	-	-
Corporate bonds	12,893,475	-	12,893,475	-	-
Domestic common stocks	141,295,641	67,058,864	-	-	74,236,777
Foreign common stocks	<u>122,646,637</u>	<u>2,893,903</u>	<u>-</u>	<u>-</u>	<u>119,752,734</u>
Total securities	375,776,290	168,893,304	12,893,475	-	193,989,511
Private equity					
Venture capital/buy-out	73,183,912	-	-	73,183,912	-
Special situations	<u>9,713,603</u>	<u>-</u>	<u>-</u>	<u>9,713,603</u>	<u>-</u>
Total private equity	82,897,515	-	-	82,897,515	-
Real assets					
Real estate	13,946,183	-	-	13,946,183	-
Natural resources	<u>31,809,159</u>	<u>-</u>	<u>-</u>	<u>31,809,159</u>	<u>-</u>
Total real assets	45,755,342	-	-	45,755,342	-
Diversifying assets					
Absolute return					
Strategies	10,014,053	-	-	-	10,014,053
Direct lending	11,965,865	-	-	11,965,865	-
Equity long/short	90,621,627	-	-	-	90,621,627
Global macro	107,617	-	-	-	107,617
Distressed	52,079,468	-	-	25,200,540	26,878,928
Short credit	<u>629,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>629,055</u>
Total diversifying assets	165,417,685	-	-	37,166,405	128,251,280
Other investments					
Beneficial interest in lead and remainder trusts	7,899,744	-	-	7,899,744	-
Beneficial interest in perpetual trusts	<u>10,793,901</u>	<u>-</u>	<u>-</u>	<u>10,793,901</u>	<u>-</u>
	<u>\$ 689,169,477</u>	<u>\$ 168,893,304</u>	<u>\$ 13,522,475</u>	<u>\$ 184,512,907</u>	<u>\$ 322,240,791</u>
Liabilities					
Fair value of interest rate swap	<u>\$ (13,310,013)</u>	<u>\$ -</u>	<u>\$ (13,310,013)</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

	----- 2 0 1 7 -----				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
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	<u>122,807,244</u>	<u>4,746,912</u>	-	-	<u>118,060,332</u>
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	<u>4,980,813</u>	-	-	<u>4,980,813</u>	-
Total private equity	75,912,088	-	-	75,912,088	-
Real assets					
Real estate	11,406,498	-	-	11,406,498	-
Natural resources	<u>24,825,296</u>	-	-	<u>24,825,296</u>	-
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	<u>695,042</u>	-	-	-	<u>695,042</u>
Total diversifying assets	173,325,502	-	-	32,003,394	141,322,108
Other investments					
Beneficial interest in lead and remainder trusts	629,000	-	629,000	-	-
Beneficial interest in perpetual trusts	8,751,527	-	-	8,751,527	-
	<u>10,467,203</u>	-	-	<u>10,467,203</u>	-
	<u>\$ 641,252,084</u>	<u>\$ 136,106,559</u>	<u>\$ 13,999,018</u>	<u>\$ 163,366,006</u>	<u>\$ 327,780,501</u>
Liabilities					
Fair value of interest rate swap	<u>\$ (16,182,083)</u>	<u>\$ -</u>	<u>\$ (16,182,083)</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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:

	----- 2 0 1 8 -----				
	Private <u>Equity</u>	Real <u>Assets</u>	Diversifying <u>Assets</u>	Beneficial Interest in Lead and Remainder <u>Trusts</u>	Beneficial Interest in Perpetual <u>Trusts</u>
Beginning balance	\$ 75,912,088	\$ 36,231,794	\$ 32,003,394	\$ 8,751,527	\$ 10,467,203
Total realized/unrealized gains	9,892,421	7,592,214	4,959,798	-	-
Purchases	20,399,209	22,878,679	4,782,578	-	-
Settlements	(23,306,203)	(20,947,345)	(4,579,365)	-	-
Payment received	-	-	-	(628,695)	-
Change in value of split-interest agreements	-	-	-	(223,088)	326,698
	<u>\$ 82,897,515</u>	<u>\$ 45,755,342</u>	<u>\$ 37,166,405</u>	<u>\$ 7,899,744</u>	<u>\$ 10,793,901</u>
	----- 2 0 1 7 -----				
	Private <u>Equity</u>	Real <u>Assets</u>	Diversifying <u>Assets</u>	Beneficial Interest in Lead and Remainder <u>Trusts</u>	Beneficial Interest in Perpetual <u>Trusts</u>
Beginning balance	\$ 81,528,653	\$ 32,725,125	\$ 18,953,162	\$ 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 value of split-interest agreements	-	-	-	(651,985)	452,007
	<u>\$ 75,912,088</u>	<u>\$ 36,231,794</u>	<u>\$ 32,003,394</u>	<u>\$ 8,751,527</u>	<u>\$ 10,467,203</u>

As of June 30, 2018 and 2017, the unrealized loss still held in Level III investments was \$26,833,125 and \$29,111,216, respectively.

(Continued)

DEPAUW UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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:

2 0 1 8				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Domestic common stocks (a)	\$ 74,236,777	\$ -	Daily to annually	1-90 days
Foreign common stocks (b)	119,752,734	-	Daily to 3 years	1-90 days
Diversifying assets (c)	<u>128,251,280</u>	<u>-</u>	Monthly to 3 years	30-90 days
	<u>\$ 322,240,791</u>	<u>\$ -</u>		
2 0 1 7				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
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)	<u>141,322,108</u>	<u>-</u>	Monthly to 3 years	30-90 days
	<u>\$ 327,780,501</u>	<u>\$ -</u>		

- (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.