DEPAUW UNIVERSITY

FINANCIAL STATEMENTS
June 30, 2019 and 2018

DEPAUW UNIVERSITY
Greencastle, Indiana

FINANCIAL STATEMENTS
June 30, 2019 and 2018

CONTENTS

Crowe LLP
Independent Member Crowe Global

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, DePauw University has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities,* ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606),* ASU 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash,* and *ASU 2018-08 - Not-for-Profit Entities (Topic 958)* for the year ended June 30, 2019*.* Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
October 10, 2019

DEPAUW UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 4,230,475	$ 1,175,896
Cash restricted for capital projects	3,608,274	1,886,132
Accounts receivable (net of allowance of $413,000 for 2019 and $900,000 for 2018)	1,189,501	2,876,346
Inventories	197,924	176,499
Prepaid expenses	1,542,802	1,829,497
Contributions receivable, net (Note 2)	79,224,897	81,994,523
Student notes receivable (net of allowance for uncollectible notes of $352,000 for 2019 and $460,000 for 2018)	6,528,246	6,534,524
Other notes receivable, mortgages and promissory notes	220,000	315,238
Investments (Note 3)	670,718,627	669,846,832
Other investments	629,000	629,000
Property, plant and equipment (Note 4)	270,283,079	269,262,395
Cash surrender value of life insurance	5,672,567	5,384,466
Beneficial interest in lead and remainder trusts (Note 5)	7,631,683	7,899,744
Beneficial interest in perpetual trusts (Note 6)	10,699,429	10,793,901
Total assets	$ 1,062,376,504	$ 1,060,604,993
LIABILITIES		
Accounts payable and other accruals	$ 9,043,443	$ 5,974,166
Interest payable	1,284,484	1,326,499
Deposits, prepayments and other liabilities	3,193,820	2,901,724
Capital leases	545,298	617,149
Note payable	918,349	1,013,773
Dining service program advance	5,114,286	5,585,714
Fair value of interest rate swap (Note 11)	20,453,749	13,310,013
Annuity and trust liability (Note 7)	15,323,041	13,404,240
Advances from federal government for student loans	3,323,883	3,323,883
Accumulated postretirement benefit obligation (Note 8)	18,331,171	17,235,528
Bonds payable (Note 10)	131,125,980	128,804,759
Total liabilities	208,657,504	193,497,448
NET ASSETS		
Without donor restrictions	300,505,064	317,332,329
With donor restrictions (Note 12)	553,213,936	549,775,216
Total net assets	853,719,000	867,107,545
Total liabilities and net assets	$ 1,062,376,504	$ 1,060,604,993

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Net tuition and fees	$ 40,320,135	$ -	$ 40,320,135
Contributions	7,855,955	17,871,806	25,727,761
Investment return designated for current operations (Note 3)	14,145,214	22,854,974	37,000,188
Federal grants	-	349,649	349,649
Auxiliary services	19,721,426	-	19,721,426
Other income	4,639,165	433,327	5,072,492
Releases (from) to restriction (Note 12)	24,076,108	(24,076,108)	-
	110,758,003	17,433,648	128,191,651
Expenses			
Instruction	46,257,365	-	46,257,365
Student services	19,594,302	-	19,594,302
Academic support and library	14,337,385	-	14,337,385
Auxiliary services	20,152,665	-	20,152,665
Management and general	11,424,691	-	11,424,691
Fundraising and alumni support	4,200,399	-	4,200,399
	115,966,807	-	115,966,807
Change in net assets from operations	(5,208,804)	17,433,648	12,224,844
Non-operating activities			
Loss on interest rate swaps (Note 11)	(7,143,736)	-	(7,143,736)
Other changes in accumulated postretirement benefit obligations	(2,949,784)	-	(2,949,784)
Net assets released for capital projects (Note 12)	6,235,861	(6,235,861)	-
Change in value of split-interest agreements	210,781	(552,563)	(341,782)
Non-operating miscellaneous revenue	9,201	-	9,201
Restructuring expenses	(3,151,511)	-	(3,151,511)
Investment return after amounts designated for current operations (Note 3)	(4,829,273)	(7,206,504)	(12,035,777)
	(11,618,461)	(13,994,928)	(25,613,389)
Change in net assets	(16,827,265)	3,438,720	(13,388,545)
Net assets at beginning of year	317,332,329	549,775,216	867,107,545
Net assets, end of year	$300,505,064	$553,213,936	$853,719,000

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Net tuition and fees	$ 39,568,911	$ -	$ 39,568,911
Contributions	6,104,612	28,006,082	34,110,694
Investment return designated for current operations (Note 3)	14,950,527	21,114,013	36,064,540
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)	21,983,781	(21,983,781)	-
	107,450,406	27,610,564	135,060,970
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
Auxiliary services	20,229,377	-	20,229,377
Management and general	8,862,817	-	8,862,817
Fundraising and alumni support	4,641,120	-	4,641,120
	117,091,934	-	117,091,934
Change in net assets from operations	(9,641,528)	27,610,564	17,969,036
Non-operating activities			
Gain on interest rate swaps (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	316,265	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)	12,356,761	22,167,715	34,524,476
	27,215,416	8,958,698	36,174,114
Change in net assets	17,573,888	36,569,262	54,143,150
Net assets at beginning of year	299,370,555	513,593,840	812,964,395
Reclassification due to adoption of ASU 2016-14 (Note 1)	387,886	(387,886)	-
Net assets at beginning of year, after reclassification	299,758,441	513,205,954	812,964,395
Net assets, end of year	$317,332,329	$549,775,216	$867,107,545

See accompanying notes to financial statements.

DEPAUW UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (13,388,545)	$ 54,143,150
Items not requiring (providing) cash		
Depreciation and amortization	12,391,052	11,824,067
Actuarial change in postretirement benefit obligation	1,428,588	(694,627)
Net realized/unrealized gain on investments	(24,645,217)	(70,857,844)
Contributed stock	(4,607,700)	(4,330,654)
Contributions restricted for long-term investment	(7,491,861)	(3,394,047)
Contributions restricted for capital projects	(6,309,291)	(14,769,192)
Change in fair value of interest rate swap	8,492,946	(979,236)
Changes in		
Accounts receivable	1,686,845	(1,613,605)
Inventories, prepaid and other assets	265,270	22,743
Contributions receivable	7,377,326	1,352,637
Student notes receivable	6,278	(321,947)
Real estate held for resale	-	2,953,416
Net change in cash surrender value of life insurance	(288,101)	(92,656)
Beneficial interest in remainder and perpetual trusts	362,533	525,085
Accounts payable and other accruals	3,361,373	(648,433)
Interest payable	(42,015)	(43,802)
Annuity and trust liability	1,918,801	180,085
Accumulated postretirement benefit obligation	(332,945)	(190,763)
Net cash from operating activities	(19,814,663)	(26,935,623)
Cash flows from investing activities		
Stock contributions restricted for capital projects	(3,708)	(559,820)
Purchases of property, plant and equipment	(13,511,366)	(17,067,424)
Proceeds from sales of securities	109,004,884	110,811,288
Purchases of securities	(85,231,462)	(88,395,922)
Payments on notes receivable and other investing activities	95,238	171,905
Net cash from investing activities	10,353,586	4,960,027
Cash flows from financing activities		
Stock contributions restricted for capital projects	3,708	559,820
Proceeds from contributions restricted for long-term investment	7,491,861	3,394,047
Proceeds from contributions restricted for capital projects	6,309,291	14,769,192
Bond issuance costs paid	(119,771)	(124,617)
Net settlements on interest rate swaps	(1,349,210)	(1,892,834)
Payments on capital leases	(262,657)	(400,964)
Payments on notes payable	(95,424)	(114,765)
Principal payments on bonds payable	(2,440,000)	(2,095,000)
Issuance of bonds payable	4,700,000	2,000,000
Net cash from financing activities	14,237,798	16,094,879
Net change in cash and cash equivalents	4,776,721	(5,880,717)
Cash and cash equivalents, beginning of year	3,062,028	8,942,745
Cash and cash equivalents, end of year	$ 7,838,749	$ 3,062,028
Supplemental cash flows information		
Interest paid	$ 5,599,635	$ 5,635,751
Purchases of property, plant and equipment in accounts payable	2,451,851	1,887,235
Equipment obtained through capital lease financing	190,806	116,127

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, 2019 and 2018. At June 30, 2019 and June 30, 2018, 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 without donor restrictions or with donor restrictions.

The following classes of net assets are maintained:

Net Assets Without Donor Restrictions - The net asset without donor restrictions class includes general assets and liabilities of the University. The net assets without donor restrictions of the University may be used at the discretion of management to support the University’s purposes and operations.

Net Assets With Donor Restrictions - The net asset with donor restrictions 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 with donor restrictions in perpetuity are classified as net assets with donor restrictions of a temporary nature. For donor-imposed restrictions to be kept in perpetuity, 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, 2019 and 2018, the University's cash accounts exceeded federally insured limits by approximately $6,697,000 and $2,101,000. 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, 2019 and 2018, 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
2019	$ 378,556	$ 194,738	$ 183,464	$ 295,384	$ 1,052,142
2018	465,623	184,488	164,118	285,724	1,099,953

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 net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions 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, 2019 or 2018.

Revenue Recognition:

Tuition, Fees, and Auxiliary Services

Net tuition revenues consisted primarily of tuition, net of grants and scholarships, and fees derived from courses taught by the University, as well as from related educational resources that the University provided to its students, such as access to online materials. Tuition revenue was recognized pro-rata over the applicable period of instruction. For the years ended June 30, 2019 and 2018, the University's revenue was reduced by approximately $63,834,000 and 60,509,000, respectively, as a result of scholarships that the University offered to students. Revenue recognition occurred once a student started attending a course. The University had no costs that were capitalized to obtain or to fulfill a contract with a customer.

Sales and services of auxiliary enterprises include housing services, food services, a bookstore, parking operations, events and camps. The University recognizes revenue for housing and certain food services proportionately over the applicable academic term. Fees related to housing and food received in advance of services are reported in deposits, prepayments and other liabilities in the statements of financial position. The University typically recognizes revenue from other sales and services of auxiliary enterprises at the point in time sales occur or as services are rendered.

The following table presents revenues disaggregated by the nature of transfer of services for the year ended June 30, 2019:

Undergraduate programs	$ 104,153,960
Less: grants and scholarships	(63,833,825)
Net tuition revenues	40,320,135
Auxiliary revenues	19,721,426
Total revenues from contracts with customers	$ 60,041,561

The following table presents revenues disaggregated by the nature of transfer of services for the year ended June 30, 2018:

Undergraduate programs	$ 100,078,273
Less: grants and scholarships	(60,509,362)
Net tuition revenues	39,568,911
Auxiliary revenues	19,896,717
Total revenues from contracts with customers	$ 59,465,628

The University's contract liabilities are presented within the deposits, prepayments and other liabilities in the statements of financial position. In any period that the University receives excess tuition, fees and other student payments over amounts recognized as revenue on the statement of activities, a liability is recorded on the statements of financial position. The University does not present information about outstanding performance obligations as of year-end, because its contracts with students all had original terms of less than one year.

(Continued)

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

A summary of changes in contract liabilities is as follows:

	June 30, 2018	Revenue Recognized	Additions	June 30, 2019
Student deposits, prepayments and other liabilities	$ 2,901,724	$ (2,901,724)	$ 3,193,820	$ 3,193,820
Dining service program advance	5,585,717	(471,431)	-	5,114,286

The University maintains an institutional refund policy, which provides for all or a portion of tuition and fees to be refunded if a student withdraws during the stated refund period. The University does not record revenue on amounts that are expected to be refunded. Refunds are estimated based on historical experience.

The University's receivables represented unconditional rights to consideration from its contracts with students; accordingly, students were not billed until they started attending a course and the revenue recognition process had commenced. Once a student had been invoiced, payment was due immediately. Included in each invoice to the student were all educational related items including tuition, net of scholarships, housing, educational materials, fees, etc.

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, 2019 and 2018 amounted to $673,688 and $563,300, 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 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, 2019 and 2018, the balance of the advance was $5,114,286 and $5,585,714, 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.

(Continued)

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

Contributions: Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 with donor restrictions and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions 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, 2019 and 2018, 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 $100,341,717 and $103,587,997 and total expenses were $115,966,807 and $117,091,934 for the years ended June 30, 2019 and 2018.

Recent Accounting Pronouncements:

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (ASU). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The University implemented this guidance for the year ended June 30, 2019 and has adjusted the presentation of these financial statements accordingly including retrospective application to the prior year except for disclosure of liquidity and availability as well as functional expenses by nature, as permitted by the standard. The adoption of this standard resulted in a reclassification of the 2018 beginning net assets to reflect the impact of reflecting the underwater endowment activity within the net assets with donor restrictions class, rather than the without donor restrictions class.

(Continued)

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

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers Topic (606)*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU has superseded the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The University applied the amendments in this ASU for the year ended June 30, 2019.

The University implemented ASU 2014-09 using a modified retrospective method of application to all contracts. The adoption of ASU 2014-09 resulted in changes to the disclosure of revenue primarily related to tuition revenue, board and lodging revenue, and auxiliary revenues. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-09. As a result, no cumulative effect adjustment was recorded upon adoption.

In November 2016, the FASB issued ASU 2016-18 – *Statement of Cash Flows (Topic 23): Restricted Cash*. The amendments in this Update require that a statement of cash flows explain the change during the period of total cash, cash equivalents, and amounts generally described as restricted cash of cash equivalents. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents on the statement of cash flows. The University applied the amendments in this ASU for the year ended June 30, 2019, including retrospective adoption to the year ended June 30, 2018.

In June 2018, the FASB issued ASU 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The University applied the amendments in this ASU for the year ended June 30, 2019.

The University implemented ASU 2018-08 using a full retrospective method of application. The adoption of ASU 2018-08 resulted in changes to the disclosure of revenue. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2018-08. As a result, no cumulative effect adjustment was recorded upon adoption.

<u>Reclassifications</u>: Certain prior year balances have been reclassified to conform to the current year presentation. The reclassifications had no impact on change in net assets or net assets in total.

<u>Subsequent Events</u>: Management has performed an analysis of the activities and transactions subsequent to June 30, 2019, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2019. Management has performed their analysis through October 10, 2019, the date the financial statements were issued

On August 16, 2019, the University refinanced the Series 2009A and 2009B bond issuance with a Series 2019 fixed rate issuance through the Indiana Finance Authority. The Series 2019 has a structure similar to the Series 2009 bonds, but the refinancing provided interest rate savings on a Net Present Value basis.

(Continued)

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30:

	2019	2018
Due within one year	$ 16,180,872	$ 15,414,332
Due in one to five years	39,516,036	39,804,661
Due in more than five years	39,587,529	44,222,856
	95,284,437	99,441,849
Allowance for uncollectible contributions	(4,169,000)	(4,315,000)
	91,115,437	95,126,849
Discount for time value of money	(11,890,540)	(13,132,326)
	$ 79,224,897	$ 81,994,523

Discount rates used to estimate the present value of future year receivables ranged from 1.2% to 6.0% for 2019 and 2018. As of June 30, 2019 and 2018, 49% and 53% of gross contributions receivable were due from three contributors, respectively.

Contributions receivable designated for specific purposes are as follows:

	2019	2018
Faculty development	$ 3,461,719	$ 3,447,946
Scholarships	32,919,274	31,261,158
Campus and facilities	13,935,858	17,240,859
Programs	28,168,519	29,627,588
Any activity of the University	739,527	416,972
	$ 79,224,897	$ 81,994,523

NOTE 3 - INVESTMENTS

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

	2019	2018
Short-term investments	$ 56,149,233	$ 58,095,162
Government securities	35,346,152	40,845,375
Corporate bonds	22,700,542	12,893,475
Domestic common stocks	57,672,407	67,058,864
Foreign common stocks	2,743,536	2,893,904
Public equity commingled funds	179,918,290	193,989,510
Private equity		
Venture capital/buy-out	88,321,003	73,183,912
Special situations	10,329,507	9,713,603
Total private equity	98,650,510	82,897,515
Real assets		
Real estate	17,411,876	13,946,183
Natural resources	29,839,790	31,809,159
Total real assets	47,251,666	45,755,342
Diversifying assets		
Absolute return strategies	9,223,830	10,014,053
Direct lending	10,262,464	11,965,865
Equity long/short	103,200,439	90,621,627
Global macro	35,419	107,617
Distressed	46,933,171	52,079,468
Short credit	630,968	629,055
Total diversifying assets	170,286,291	165,417,685
Totals	$ 670,718,627	$ 669,846,832

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.

	2019	2018
Dividends and interest, net	$ 319,194	$ (268,828)
Net realized gains on investments	26,218,375	38,342,733
Net unrealized gains (losses) on investments	(1,573,158)	32,515,111
Total return on investments	24,964,411	70,589,016
Investment return designated for current operations	(37,000,188)	(36,064,540)
Investment return in excess of amounts designated for current operations	$ (12,035,777)	$ 34,524,476

(Continued)

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

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

	2019	2018
Campus grounds and buildings	$ 377,994,482	$ 373,605,110
Furnishings and equipment	45,642,480	44,766,037
Books and scientific apparatus	3,291,850	3,094,126
Inn at DePauw and Student Social Center	15,063,568	14,976,195
Other property held	12,744,530	13,120,245
	454,736,910	449,561,713
Accumulated depreciation	(214,005,568)	(201,867,114)
	240,731,342	247,694,599
Construction in progress	18,465,742	10,750,623
Land	11,085,995	10,817,173
	$ 270,283,079	$ 269,262,395

Construction in progress at June 30, 2019 primarily includes expenditures related to renovations to the Robert G. Bottoms Alumni and Development Center as well as the first year student housing project. Capitalized interest included in construction in progress at June 30, 2019 and 2018 is $67,563 and $246, respectively. At June 30, 2019, the University had committed $35,210,654 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 with donor restrictions 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 2.8% and 3.4% were used for the years ended June 30, 2019 and 2018, respectively. The estimated fair value of these trusts as of June 30, 2019 and 2018 were $7,631,683 and $7,899,744, 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 $10,699,429 at June 30, 2019 and $10,793,901 at June 30, 2018, 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 $15,323,041 and $13,404,240 at June 30, 2019 and 2018, 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 2019 and 2018.

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 2019 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.

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:

	2019	2018
Accumulated postretirement benefit obligation at beginning of year	$ 17,235,528	$ 18,120,918
Service cost	192,431	258,655
Interest cost	681,495	669,284
Actuarial (gains) losses – net	1,428,588	(694,627)
Benefits paid	(1,206,871)	(1,118,702)
Accrued postretirement benefit obligation at end of year	$ 18,331,171	$ 17,235,528

(Continued)

NOTE 8 - ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION (Continued)

	2019	2018
Amounts recognized in net assets without donor restrictions not yet recognized as components of net periodic benefit cost consists of:		
Prior service cost	$ (2,260,903)	$ (3,782,099)
Net (gain) loss	908,885	(519,703)
Amount recognized	$ (1,352,018)	$ (4,301,802)

Employer contributions to the plan during 2019 and 2018, respectively, were $1,206,871 and $1,118,702.

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, 2019 and 2018, the net periodic postretirement benefit cost was $(647,270) and $(593,257), respectively. The estimated net loss for the defined-benefit postretirement health care plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $(1,423,048).

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 3.40% and 4.09% at June 30, 2019 and 2018, respectively. The discount rate to determine the post-retirement benefit costs was 4.09% and 3.80% at June 30, 2019 and 2018, respectively. The impact on the liability of a 1% increase in rates or a 1% decrease in rates would be $1,210,372 or $(1,105,426), respectively.

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

2020	$ 1,282,513
2021	1,361,375
2022	1,489,226
2023	1,525,490
2024	1,606,802
Thereafter	8,630,902

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 $3,046,830 and $3,208,083 for the years ended June 30, 2019 and 2018.

NOTE 10 - BONDS PAYABLE AND LINE OF CREDIT

1. 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. The 2008A Bonds are secured by an irrevocable letter of credit, which expires on July 1, 2024, and covers the principal of the 2008A Bonds plus accrued interest. 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) repaid in six equal monthly payments of principal, plus interest, beginning one-year after the stated maturity of liquidity advance date. The University would also be required to pay interest on the unpaid principal amount of the amount drawn on the letter of credit.

2. 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, 2019 and 2018 was $38,090,000 and $39,935,000.

3. 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 current Bank Purchase Mode Term shall expire on July 1, 2024. 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.

4. 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.

(Continued)

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

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, 2019 and 2018 was $14,105,000 and $14,450,000.

5. 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.

   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, 2019 and 2018 was $6,700,000 and $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 is payable quarterly in arrears.

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	2019	2018
(1) Series 2008A Bonds	$ 42,225,000	$ 41,155,000	$ 41,265,000
(2) Series 2009A Bonds	29,845,000	29,845,000	29,845,000
(2) Series 2009B Bonds	15,155,000	8,245,000	10,090,000
(3) Series 2014 Bonds	32,500,000	32,360,000	32,500,000
(4) Series 2015 Bonds	15,115,000	14,105,000	14,450,000
(5) Series 2018 Bonds	40,000,000	6,700,000	2,000,000
		132,410,000	130,150,000
Less: Bond issuance costs		(1,284,020)	(1,345,241)
		$ 131,125,980	$ 128,804,759

(Continued)

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

Bond maturities are as follows:

2020	$ 2,780,000
2021	3,120,000
2022	4,112,770
2023	4,229,800
2024	4,517,730
Thereafter	113,649,700
	$ 132,410,000

Interest expense was approximately $4,400,000 and $3,600,000 for 2019 and 2018, 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, 2019 and an interest rate of LIBOR plus 125 basis points. As of June 30, 2019 and 2018, 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, 2019 and 2018. The interest rate swap matures in 2032. Total interest paid during 2019 and 2018 was $1,138,117 and $1,374,938, 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. The interest rate swap matured on July 1, 2018.

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 3.63% on a notional amount of $9,975,000 and $10,625,000 at June 30, 2019 and 2018, respectively. The interest rate swap matures in 2036. Total interest paid during 2019 and 2018 was $190,473 and $253,615, 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 $230,531.

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 $6,700,000 at June, 30, 2019 and $2,000,000 at June 30, 2018, respectively. The interest rate swap matures in 2048. Total interest paid during was $62,744 in 2019 and $1,601 in 2018 and is allocated to various expenses by function on the statement of activities.

(Continued)

NOTE 11 - INTEREST RATE SWAP AGREEMENTS (Continued)

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 interest rate swaps resulted in a liability of approximately $20,453,000 and $13,310,000 at June 30, 2019 and 2018, respectively.

NOTE 12 - NET ASSETS

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
With donor restrictions of a temporary nature		
Scholarship and student support programs	$ 63,342,387	$ 66,361,650
Building and equipment maintenance	12,594,056	17,505,154
Library and department support programs	22,520,539	21,660,707
Faculty and academic support	21,741,008	23,426,173
Annuity trust agreements	12,505,805	11,759,767
Timing restriction	3,848,485	3,630,076
Other	678,544	922,459
	137,230,824	145,265,986
With donor restrictions to be kept in perpetuity		
Scholarship and student support programs	233,894,427	226,230,258
Faculty and academic support	86,092,321	86,019,430
Library and department support programs	72,202,035	70,332,813
Split-interest agreements and perpetual trusts	16,093,044	16,681,825
Building and equipment maintenance	3,483,813	2,221,004
Unrestricted use	4,217,472	3,023,900
	415,983,112	404,509,230
	$ 553,213,936	$ 549,775,216

Net assets released from donor restrictions:

	2019	2018
Purpose restrictions accomplished - primarily scholarship and instructional support	$ 22,255,605	$ 20,594,880
Gifts and grants utilized for operations	1,604,830	1,388,901
Time restrictions expired - death of annuity beneficiary	215,673	-
Total restrictions released for operations	24,076,108	21,983,781
Released for capital projects	6,235,861	13,525,282
	$ 30,311,969	$ 35,509,063

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 net assets with donor restrictions to be kept in perpetuity (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 net assets with donor restrictions of a temporary nature 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 pledges receivable with donor restrictions, which total $62,537,977 and $62,353,745 for 2019 and 2018, and beneficial interest in perpetual trusts, which total $10,699,429 and $10,793,901 for 2019 and 2018, 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, 2019 was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 497,531,337	$ 497,531,337
Board-designated endowment funds	232,809,541	-	232,809,541
Total endowment funds	$ 232,809,541	$ 497,531,337	$ 730,340,878

(Continued)

NOTE 13 - ENDOWMENT (Continued)

The composition of net assets by type of endowment fund at June 30, 2018 was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 492,581,520	$ 492,581,520
Board-designated endowment funds	238,268,421	-	238,268,421
Total endowment funds	$ 238,268,421	$ 492,581,520	$ 730,849,941

Changes in endowment net assets for the year ended June 30, 2019 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 238,268,421	$ 492,581,520	$ 730,849,941
Investment return	8,298,194	15,289,945	23,588,139
Contributions received	1,000	11,529,298	11,530,298
Change in split-interest agreements	226,394	103,028	329,422
Appropriation of endowment assets for expenditure	(14,127,467)	(23,018,453)	(37,145,920)
Transfer of net assets	142,999	1,045,999	1,188,998
Endowment net assets, end of year	$ 232,809,541	$ 497,531,337	$ 730,340,878

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 226,894,883	$ 442,242,264	$ 669,137,147
Reclassification due to adoption of ASU 2016-14	387,886	(387,886)	-
Endowment net assets, beginning of year, after reclassification	227,282,769	441,854,378	669,137,147
Investment return	25,556,221	43,308,647	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	(46,813)	2,083,122	2,036,309
Endowment net assets, end of year	$ 238,268,421	$ 492,581,520	$ 730,849,941

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 net assets with donor restrictions and aggregated $238,957 and $229,198 at June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new with donor restrictions in perpetuity 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 and government securities.

Alternative investments are valued using the net asset value (NAV) (or its equivalent) provided by the fund as a practical expedient including public equity commingled funds, private equity funds, real assets funds, and diversifying assets. Those investments are excluded from the valuation hierarchy.

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, 2019 and 2018:

	2019				
	Fair Value	Level 1	Level 2	Level 3	NAV
Assets					
Securities					
Short-term investments	$ 56,149,233	$ 56,149,233	$ -	$ -	$ -
Government securities	35,346,152	35,013,291	332,861	-	-
Corporate bonds	22,700,542	-	22,700,542	-	-
Domestic common stocks	57,672,407	57,672,407	-	-	-
Foreign common stocks	2,743,536	2,743,536	-	-	-
Public equity commingled funds	179,918,290	-	-	-	179,918,290
Total securities	354,530,160	151,578,467	23,033,403	-	179,918,290
Private equity					
Venture capital/buy-out	88,321,003	-	-	-	88,321,003
Special situations	10,329,507	-	-	-	10,329,507
Total private equity	98,650,510	-	-	-	98,650,510
Real assets					
Real estate	17,411,876	-	-	-	17,411,876
Natural resources	29,839,790	-	-	-	29,839,790
Total real assets	47,251,666	-	-	-	47,251,666
Diversifying assets					
Absolute return Strategies	9,223,830	-	-	-	9,223,830
Direct lending	10,262,464	-	-	-	10,262,464
Equity long/short	103,200,439	-	-	-	103,200,439
Global macro	35,419	-	-	-	35,419
Distressed	46,933,171	-	-	-	46,933,171
Short credit	630,968	-	-	-	630,968
Total diversifying assets	170,286,291	-	-	-	170,286,291
Other investments	629,000	-	629,000	-	-
Beneficial interest in lead and remainder trusts	7,631,683	-	-	7,631,683	-
Beneficial interest in perpetual trusts	10,699,429	-	-	10,699,429	-
	$ 689,678,739	$ 151,578,467	$ 23,662,403	$ 18,331,112	$ 496,106,757
Liabilities					
Fair value of interest rate swap	$ (20,453,749)	$ -	$ (20,453,749)	$ -	$ -

(Continued)

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

	2018				
	Fair Value	Level 1	Level 2	Level 3	NAV
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	67,058,864	67,058,864	-	-	-
Foreign common stocks	2,893,904	2,893,904	-	-	-
Public equity commingled funds	193,989,510	-	-	-	193,989,510
Total securities	375,776,290	168,893,305	12,893,475	-	193,989,510
Private equity					
Venture capital/buy-out	73,183,912	-	-	-	73,183,912
Special situations	9,713,603	-	-	-	9,713,603
Total private equity	82,897,515	-	-	-	82,897,515
Real assets					
Real estate	13,946,183	-	-	-	13,946,183
Natural resources	31,809,159	-	-	-	31,809,159
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	-	-	-	52,079,468
Short credit	629,055	-	-	-	629,055
Total diversifying assets	165,417,685	-	-	-	165,417,685
Other investments	629,000	-	629,000	-	-
Beneficial interest in lead and remainder trusts	7,899,744	-	-	7,899,744	-
Beneficial interest in perpetual trusts	10,793,901	-	-	10,793,901	-
	$ 689,169,477	$ 168,893,305	$ 13,522,475	$ 18,693,645	$ 488,060,052
Liabilities					
Fair value of interest rate swap	$ (13,310,013)	$ -	$ (13,310,013)	$ -	$ -

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:

	2019	
	Beneficial Interest in Lead and Remainder Trusts	Beneficial Interest in Perpetual Trusts
Beginning balance	$ 7,899,744	$ 10,793,901
Payment received	(1,478,117)	-
Change in value of split-interest agreements	1,210,056	(94,472)
	$ 7,631,683	$ 10,699,429

	2018	
	Beneficial Interest in Lead and Remainder Trusts	Beneficial Interest in Perpetual Trusts
Beginning balance	$ 8,751,527	$ 10,467,203
Payment received	(628,695)	-
Change in value of split-interest agreements	(223,088)	326,698
	$ 7,899,744	$ 10,793,901

(Continued)

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:

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity commingled funds (a)	$ 179,918,290	$ -	Daily to 3 years	1-90 days
Private equity (b)	98,650,510	36,359,991	Not redeemable	N/A
Real assets (c)	47,251,666	34,331,918	Not redeemable	N/A
Diversifying assets (d)	170,286,291	15,472,750	Monthly to not redeemable	30 days to N/A
	$ 496,106,757	$ 86,164,659		

	2018		
	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity commingled funds (a)	$ 193,989,510	Daily to 3 years	1-90 days
Private equity (b)	82,897,515	Not redeemable	N/A
Real assets (c)	45,755,342	Not redeemable	N/A
Diversifying assets (d)	165,417,685	Monthly to not redeemable	30 days to N/A
	$ 488,060,052		

(a) Public equity commingled funds: Public equity commingled funds include investments in commingled fund vehicles that include a limited liability company, limited partnerships, a common trust fund, a British Virgin Islands business company, a Cayman Islands limited partnership, and Cayman Islands exempt companies, which invest in U.S., non-U.S., and emerging markets marketable equity securities. These commingled funds have daily to triennial liquidity subject to certain notice requirements.

(b) Private equity: Private equity includes investments in limited partnerships, a limited liability company, Cayman Islands limited partnerships, and England limited partnership, and a British Virgin Islands business company that utilize various strategies including private equity buyout and venture capital, among others. These private equity funds typically have investment terms greater than ten years. The investments cannot be redeemed during the term of the fund. Distributions from each fund are received as the underlying investments of the funds are liquidated, which is expected to occur over the next 5 to 10 years.

(c) Real assets: Real assets includes investments in limited partnerships, limited liability companies, and a Cayman Islands limited partnership which invest in real estate, along with a variety of energy and natural resources related infrastructure, property or companies. These real asset funds typically have investment terms greater than 10 years. The investments cannot be redeemed during the term of the fund. Distributions from each fund are received as the underlying investments of the funds are liquidated, which is expected to occur over the next 5 to 10 years.

(Continued)

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

(d) Diversifying assets: Diversifying assets include investments in commingled fund vehicles including a limited partnership, Cayman Islands limited partnerships, and Cayman Islands exempt companies, which implement a range of alternative investment strategies such as long/short equity, credit, managers investing opportunistically across the capital structure, and other strategies. These funds are open-ended in duration and generally offer quarterly to annual liquidity subject to certain notice requirements and gate provisions. Additionally, certain diversifying assets may hold, directly or indirectly, side pocket investments where no redemptions are permitted until such investments are liquidated or deemed realized.

Diversifying assets also includes investments in limited partnerships and Cayman Island limited partnerships that utilized direct lending, distressed-oriented, and other opportunistic investment strategies. These funds typically have investment terms greater than 10 years. The investments cannot be redeemed during the term of the fund. Distributions from each fund are received as the underlying investments of the funds are liquidated, which is expected to occur over the next 5 to 10 years.

NOTE 15 - LIQUIDITY AND AVAILABILITY

The University's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2019
Financial assets at year end:	
Cash and cash equivalents	$ 4,230,475
Cash restricted for capital projects	3,608,274
Account receivable, net	1,189,501
Contributions receivable, net	79,224,897
Investments	670,718,627
Total financial assets	758,971,774
Expected endowment appropriation based on board approved spending policy	38,884,000
Less amounts not available to be used within one year:	
Net assets subject to donor restriction	553,213,936
Less: Non-financial assets subject to donor restriction	
Other notes receivable, mortgages and promissory notes	(220,000)
Other investments	(629,000)
Cash surrender value of life insurance	(5,672,567)
Beneficial interest in lead and remainder trusts	(7,631,683)
Beneficial interest in perpetual trust	(10,699,429)
Financial assets subject to donor restriction	528,361,257
Cash restricted for capital projects	3,608,274
Investments held for annuity and trust liabilities	15,323,041
Board designated endowment fund	232,809,541
Total financial assets not available to be used within one year	780,102,113
Financial assets expected to be available to meet general expenditures within one year	$ 17,753,661

(Continued)

NOTE 15 - LIQUIDITY AND AVAILABILITY (Continued)

As part of the University's liquidity management, the University invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Donor-restricted endowment funds are not available for general operating expenditure. The University has a Board-designated endowment of approximately $233 million, subject to an annual 4.5 to 6 percent spending rate. Although the University generally does not spend from Board-designated endowments (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), the Board may appropriate funding beyond the stated spending rate for operating and/or capital needs of the University from time to time. Distributions from endowment are estimated based on the anticipated operating spending rate to be approved by the Board at its fall 2019 meeting.

As described in Note 10, the University maintains a line of credit agreement with a bank in the amount of $20 million. The line is available for general operating liquidity and may be drawn on at any time. As of June 30, 2019, there were no outstanding borrowings on the agreement.

Liquidity monitoring procedures include daily review of operating cash balances and an 18-month rolling operating cash forecast which is updated monthly by the Finance Office.

NOTE 16 - EXPENSES BY NATURE

The statements of activities report certain categories of expenses attributable to the programs and supporting functions of the University. Program Activities include instruction, student services, academic support and library, and the costs of other academic programs. The table below presents these functional expenses by their natural classification for the year ended June 30, 2019.

	Instruction	Student Services	Academic Support and Library	Auxiliary Services	Management and General	Fundraising and Alumni Support	2019 Total	2018 Total
Salaries and wages	$ 23,608,781	$ 8,184,831	$ 4,178,508	$ 1,107,586	$ 5,422,867	$ 2,186,156	$ 44,688,729	$ 45,214,182
Fringe benefits	6,948,401	2,044,248	1,925,006	333,581	1,507,541	810,445	13,569,222	13,635,122
Outside services	1,488,006	1,060,950	167,843	8,560,599	1,280,982	12,948	12,571,328	13,298,630
Physical plant	2,242,823	1,040,172	705,463	3,052,741	798,886	252,756	8,092,841	8,058,639
Depreciation	4,971,512	2,097,509	728,878	4,301,218	441,118	145,287	12,685,522	12,242,035
Debt service	2,280,171	962,949	334,298	2,234,257	203,263	75,262	6,090,200	6,145,359
Other	4,717,671	4,203,643	6,297,389	562,683	1,770,034	717,545	18,268,965	18,497,967
Total grants and expenses	$ 46,257,365	$ 19,594,302	$ 14,337,385	$ 20,152,665	$ 11,424,691	$ 4,200,399	$ 115,966,807	$ 117,091,934

The allocations of certain categories of expenses attributable to more than one program or supporting function are described in Note 1.