



FURMAN UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Furman University

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Report of Independent Auditor

To the Board of Trustees
Furman University
Greenville, South Carolina

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Furman University as of June 30, 2018 and 2017, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Greenville, South Carolina
October 25, 2018

Furman University

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 35,315,269	\$ 37,223,030
Accounts receivable, net	3,454,065	3,178,218
Prepaid expenses and other assets	4,483,690	5,229,625
Contributions receivable, net	33,298,114	37,050,833
Investments	598,422,006	576,385,273
Equity interest in The Hollingsworth Funds, Inc.	164,374,991	157,571,665
Student loans and other notes receivable, net	3,790,421	4,549,113
Lease receivable	10,942,271	9,296,383
Property and equipment, net	275,072,154	275,929,874
Total assets	\$ 1,129,152,981	\$ 1,106,414,014
Liabilities and Net Assets		
Liabilities:		
Payables and accrued liabilities	\$ 6,194,975	\$ 9,107,042
Accrued compensation and withholdings	4,492,674	4,470,774
Deferred revenue	8,566,692	8,943,707
Actuarial liability for annuities payable	1,433,396	1,474,047
Government advances for student loans	3,962,487	4,385,074
Bonds, notes and leases payable	114,352,477	121,801,922
Fair value of interest rate exchange agreement	743,369	1,201,886
Total liabilities	139,746,070	151,384,452
Net assets:		
Unrestricted	362,203,990	346,401,224
Temporarily restricted	410,960,079	393,285,426
Permanently restricted	216,242,842	215,342,912
Total net assets	989,406,911	955,029,562
Total liabilities and net assets	\$ 1,129,152,981	\$ 1,106,414,014

See notes to consolidated financial statements.

Furman University
Consolidated Statement of Activities
Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			2017	
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	Total
Operating revenues and support:					
Tuition and fees	\$ 134,622,005	\$ -	\$ -	\$ 134,622,005	\$ 132,164,002
Less student financial aid	(69,098,429)	-	-	(69,098,429)	(68,580,021)
Net tuition and fees	65,523,576			65,523,576	63,583,981
Contributions	4,883,588	8,206,745	-	13,090,333	11,197,078
Grants and contracts	2,796,255	1,410,646	-	4,206,901	4,969,502
Investment return designated for operations:					
Endowment spending	7,613,606	25,431,241	-	33,044,847	30,125,080
Other investment income	1,587,230	-	-	1,587,230	1,487,880
Room, board, and other auxiliary services	34,428,175	-	-	34,428,175	33,864,379
Intercollegiate athletics	4,503,043	-	-	4,503,043	4,721,262
Other	2,849,739	-	-	2,849,739	3,209,568
Satisfaction of program restrictions	36,731,391	(36,731,391)	-	-	-
Total operating revenues and support	160,916,603	(1,682,759)	-	159,233,844	153,158,730
Operating expenses:					
Instruction	62,387,456	-	-	62,387,456	59,291,737
Research	2,223,712	-	-	2,223,712	1,994,314
Public service	297,239	-	-	297,239	61,668
Academic support	19,975,396	-	-	19,975,396	17,839,719
Student services	29,517,657	-	-	29,517,657	28,956,776
Institutional support	23,138,374	-	-	23,138,374	19,848,263
Room, board, and other auxiliary services	23,346,094	-	-	23,346,094	22,369,016
Total operating expenses	160,885,928	-	-	160,885,928	150,361,493
Change in net assets from operating activities	30,675	(1,682,759)	-	(1,652,084)	2,797,237
Non-operating activities:					
Investment return in excess of amounts designated for current operations	7,009,015	19,577,507	107,491	26,694,013	37,112,147
Contributions	98,108	134,130	6,822,622	7,054,860	9,808,551
Net assets released from restrictions for plant	677,230	(677,230)	-	-	-
Donor designation changes	5,739,416	333,540	(6,072,956)	-	-
Change in interest rate exchange agreement	458,517	-	-	458,517	683,803
Other	1,789,805	(10,535)	42,773	1,822,043	677,337
Total non-operating activities	15,772,091	19,357,412	899,930	36,029,433	48,281,838
Change in net assets	15,802,766	17,674,653	899,930	34,377,349	51,079,075
Net assets, beginning of year	346,401,224	393,285,426	215,342,912	955,029,562	903,950,487
Net assets, end of year	\$ 362,203,990	\$ 410,960,079	\$ 216,242,842	\$ 989,406,911	\$ 955,029,562

See notes to consolidated financial statements.

Furman University

Consolidated Statement of Activities

Year Ended June 30, 2017

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues and support:				
Tuition and fees	\$ 132,164,002	\$ -	\$ -	\$ 132,164,002
Less student aid	(68,580,021)	-	-	(68,580,021)
Net tuition and fees	63,583,981	-	-	63,583,981
Contributions	5,287,748	5,909,330	-	11,197,078
Grants and contracts	3,958,082	1,011,420	-	4,969,502
Investment return designated for operations:				
Endowment spending	7,136,329	22,988,751	-	30,125,080
Other investment income	1,487,880	-	-	1,487,880
Room, board, and other auxiliary services	33,864,379	-	-	33,864,379
Intercollegiate athletics	4,125,556	595,706	-	4,721,262
Other	3,209,568	-	-	3,209,568
Satisfaction of program restrictions	32,228,531	(32,228,531)	-	-
Total operating revenues and support	154,882,054	(1,723,324)	-	153,158,730
Operating expenses:				
Instruction	59,291,737	-	-	59,291,737
Research	1,994,314	-	-	1,994,314
Public service	61,668	-	-	61,668
Academic support	17,839,719	-	-	17,839,719
Student services	28,956,776	-	-	28,956,776
Institutional support	19,848,263	-	-	19,848,263
Room, board, and other auxiliary services	22,369,016	-	-	22,369,016
Total operating expenses	150,361,493	-	-	150,361,493
Change in net assets from operating activities	4,520,561	(1,723,324)	-	2,797,237
Non-operating activities:				
Investment return in excess of amounts designated for current operations	8,157,897	28,751,153	203,097	37,112,147
Contributions	61,916	319,326	9,427,309	9,808,551
Net assets released from restrictions for plant	1,661,255	(1,661,255)	-	-
Donor designation changes	(3,819,887)	97,272	3,722,615	-
Change in interest rate exchange agreement	683,803	-	-	683,803
Other	909,333	(25,665)	(206,331)	677,337
Total non-operating activities	7,654,317	27,480,831	13,146,690	48,281,838
Change in net assets	12,174,878	25,757,507	13,146,690	51,079,075
Net assets, beginning of year	334,226,346	367,527,919	202,196,222	903,950,487
Net assets, end of year	\$ 346,401,224	\$ 393,285,426	\$ 215,342,912	\$ 955,029,562

See notes to consolidated financial statements.

Furman University

Consolidated 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	\$ 34,377,349	\$ 51,079,075
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and accretion	13,940,231	13,093,206
Amortization of bond premium and bond issuance costs	(320,479)	(339,039)
(Gain) loss on disposal of property and equipment	47,653	(4,711)
Net realized gain on sale of investments	(23,088,349)	(27,384,230)
Net unrealized gain on investments	(27,863,590)	(36,050,269)
Change in fair value of interest rate exchange agreement	(458,517)	(683,803)
Contributions restricted for long-term investment	(10,779,672)	(18,461,556)
Change in value of obligations under split-interest agreements	171,468	186,601
Proceeds from sale of donated securities	783,063	457,303
Other non-cash operating items	89,791	133,797
Change in assets and liabilities		
Accounts receivable	(275,847)	(828,163)
Prepaid expenses and other assets	745,935	(661,738)
Contributions receivable	3,752,719	9,832,867
Lease receivable	(1,645,888)	(737,252)
Payables and accrued liabilities	(3,531,305)	(4,489,354)
Accrued compensation and withholdings	21,900	73,665
Deferred revenue	(377,015)	333,927
Net cash from operating activities	<u>(14,410,553)</u>	<u>(14,449,674)</u>
Cash flows from investing activities:		
Capital expenditures	(12,566,734)	(16,330,278)
Purchases of investments	(52,053,926)	(76,297,242)
Proceeds from sales and maturities of investments	72,919,162	88,068,861
Proceeds from disposals of property and equipment	55,808	27,527
Change in advances from federal government for student loans	(422,587)	(108,453)
Loans made to students	(219,249)	(456,931)
Repayment of student loans	888,150	638,480
Net cash from investing activities	<u>8,600,624</u>	<u>(4,458,036)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	10,779,672	18,461,556
Principal payments on notes and bonds payable	(7,128,966)	(2,797,600)
Payments on split-interest agreements	(212,119)	(204,854)
Proceeds from sale of donated securities for long-term investment	463,581	2,028,957
Net cash from financing activities	<u>3,902,168</u>	<u>17,488,059</u>
Net change in cash and cash equivalents	(1,907,761)	(1,419,651)
Cash and cash equivalents, beginning of year	<u>37,223,030</u>	<u>38,642,681</u>
Cash and cash equivalents, end of year	<u>\$ 35,315,269</u>	<u>\$ 37,223,030</u>
Supplemental cash flow information:		
Accounts payable for property and equipment acquisitions	<u>\$ 588,298</u>	<u>\$ 3,516,135</u>

See notes to consolidated financial statements.

1 - Organization

Furman University (the "University"), founded in 1826, is a private, coeducational, not-for-profit institution of higher education located in Greenville, South Carolina. The University's primary emphasis is on providing a liberal arts education at the undergraduate level. The University also offers graduate and continuing education programs. The President and Board of Trustees, a self-perpetuating governing board with thirty-six members drawn from private, public and community interests, have oversight responsibility for all of the University's financial affairs.

The accompanying financial statements are the consolidated statements of the University and the Furman University Foundation (the "Foundation"). All material intercompany balances and transactions have been eliminated.

2 - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Based on the existence or absence of donor-imposed restrictions, the University classifies resources into three categories: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets are free of donor-imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.

Temporarily restricted net assets are limited as to use by donor-imposed stipulations that expire with the passage of time or that can be satisfied by action of the University. These net assets may include unconditional pledges, split-interest agreements, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments which have not been appropriated by the Board of Trustees for distribution.

Permanently restricted net assets are amounts required by donors to be held in perpetuity. These net assets may include unconditional pledges, donor-restricted endowments (at historical value), split-interest agreements, and interests in trusts held by others. Generally, the donors of these assets permit the University to use the income earned on related investments for specific purposes.

Expirations of temporary restrictions on net assets, i.e., the passage of time, annual Board of Trustees approval of the endowment spending rate, and/or fulfilling donor-imposed stipulations, are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

Cash and Cash Equivalents

Cash and cash equivalents, reported at fair value, are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets primarily consist of depository account balances and money market funds.

Concentration of Credit Risk

The University places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The University from time to time may have amounts on deposit in excess of the insured limits.

2 - Summary of Significant Accounting Policies, continued*Investments*

Investments, funds held in trust and beneficial interests in trusts are recorded at fair value and primarily include investments in securities and investment funds.

Investments in securities include equity securities, fixed income instruments, registered mutual funds and exchange traded funds. Fair value for these investments is measured based on quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers after considering various sources of information and is reviewed by the University.

Investment funds primarily include investments in traditional equity and fixed income funds, hedge funds and private equity funds. These investments are generally shares or units of trusts, partnerships or other types of commingled vehicles and are reported at fair value in accordance with the University's valuation policies and procedures and GAAP. In accordance with GAAP, the University has estimated the fair value of its investments in investment funds on the basis of the net asset value ("NAV") per share of the investment (or its equivalent), as a practical expedient.

Of the amounts reported at NAV, approximately 71% of those investments as of June 30, 2018 are currently redeemable at NAV in 90 days or less under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and that discount could be significant.

The University's investments in investment funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge funds and private equity arrangements. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds can be viewed as illiquid and subject to liquidity risks during periods of heightened volatility or market disruptions.

Investments are exposed to several risks including, but not limited to, market, credit, liquidity, currency, counterparty, interest rate, geopolitical, and other difficult to predict macro risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

2 - Summary of Significant Accounting Policies, continued*Fair Value Measurements*

The University follows the Financial Accounting Standards Board (“FASB”) guidance on *Fair Value Measurements* which defines fair value and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability at the measurement date. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are prices and valuations that are both significant to the fair value measurement and unobservable.

Fair Value Measurements of Financial Instruments

The carrying amounts of accounts receivable, prepaid expenses and other assets, payables and accrued liabilities, accrued compensation and withholding, and deferred revenue approximate fair value because of the short maturity of these financial instruments. Management has estimated the net realizable value of student loans and other notes receivable, evaluated collection history and has concluded the carrying amount approximates fair value. Management has estimated the net realizable value of contributions receivable based on the net present value of anticipated future cash flows reduced by an allowance for uncollectible contributions and has concluded the carrying amounts approximate fair value. Management has estimated the net realizable value of annuities payable based on the actuarial lifespan of the youngest intermediate beneficiary, discounted by the beneficiary income rate provided by the trust agreement and has concluded the carrying amounts approximate fair value. The fair value of investments is estimated as noted above and in Note 13. The fair value of interest rate exchange agreements is determined using pricing models developed based on the LIBOR rate and other unobservable market data. The carrying amount of notes payable with variable rates approximates the fair value because the variable rates reflect current market rates for notes payable with similar maturities and credit qualities. The fair value of notes payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities.

Notes Receivable

The loan portfolio consists of loans granted by the University under the federally funded Perkins (formerly NDSL) program, and the A.C.E. institutional loan program. These funds are disbursed by the University based upon the demonstration of exceptional financial need, as presented by the student.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. The University capitalizes assets that are greater than \$5,000 and have a useful life of at least 3 years. Repairs and maintenance costs are charged to operating expenses. Depreciation is calculated on the straight-line method over the assets’ estimated useful lives ranging from 3 to 75 years. Depreciation is not calculated on land, art collections or construction in progress.

Conditional asset retirement obligations related to legal requirements to perform certain future activities associated with the retirement, disposal, or abandonment of capital assets are accrued to estimate the net present value for applicable future costs, e.g., asbestos abatement or removal.

2 - Summary of Significant Accounting Policies, continued*Costs of Borrowing*

Interest costs incurred on borrowed funds during the construction of capital assets, net of investment income on proceeds of borrowings that are held by a trustee, are capitalized as a component of the cost of acquiring the assets. Bond premiums and issuance costs are amortized over the term of the bonds.

Debt Portfolio Financial Instruments

Long-term debt and capital leases are reported at carrying value. The University employs an interest rate exchange agreement to manage market risks associated with a portion of its variable-rate debt. Gains or losses that result from changes in fair value are recognized as a non-operating item in the consolidated statements of activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt.

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The University's counterparty is a financial institution that meets rating criteria for financial stability and credit worthiness. Additionally, the agreement requires the posting of collateral when amounts subject to credit risk under the exchange arrangement exceeds specified levels.

Revenue Recognition

The University's revenue recognition policies are as follows:

Tuition and fees, net - Student tuition and fees are recorded as revenue in the fiscal year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by the University is reflected as a reduction of tuition and fees.

Grants - Grant revenue is recognized when qualified grant expenditures are incurred as they have been determined to be exchange transactions.

Auxiliary enterprises - Auxiliary enterprises furnish services to students, faculty and staff and include residence halls, an apartment complex, golf course, multi-purpose arena, conference center, food service and bookstore and are recorded as revenue in the fiscal year that the related services are rendered.

Operating lease - The Foundation, as lessor, has a ground lease with Upstate Senior Living, Inc. ("USL"), a South Carolina not-for-profit corporation. USL constructed a continuing care retirement community on the property. USL is responsible for all operating expenses, maintenance, repairs and capital improvements of the continuing care retirement community.

2 - Summary of Significant Accounting Policies, continued*Contributions*

Contributions, including unconditional promises to give (pledges), are recognized as revenue in the period received. Conditional promises to give are not recognized until donor stipulations are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give, with payments due to the University in future years, are recorded as temporarily restricted or permanently restricted net assets at the estimated present value of estimated future cash flows, using a credit risk adjusted discount rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in the appropriate net asset class. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and other relevant factors.

Operating Results

Operating results (change in net assets from operating activities) in the consolidated statements of activities excludes non-operating activities related to endowment and other investments, changes in fair value of derivative financial instruments, contributions supporting major capital purchases, permanently restricted contributions, and certain other non-recurring items.

Endowment distributions reported as operating revenue consist of endowment returns (regardless of when such income or returns were earned) distributed to support current operational needs. The University's Board of Trustees approves the determination of amounts to be distributed from the endowment pool on an annual basis. Objectives of the endowment distribution methodology include reducing the impact of capital market fluctuations on current operations.

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based on facility usage. Additionally, interest expense is allocated to the activities that have benefited most directly from the debt proceeds.

Income Taxes

The University is exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code. However, certain income unrelated to its exempt function is subject to income taxation.

The University's policy is to record a liability for any tax position taken that is beneficial to the University, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2018 or 2017 and, accordingly, no liability has been accrued.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates inherent in the preparation of the consolidated financial statements include estimates of the allowance for uncollectible accounts, estimates of fair value on non-publicly-traded securities, useful lives of depreciable assets, cash flows for contributions receivable and annuities payable, and actuarial assumptions used, and accruals for asset retirement obligation, interest rate exchange agreements, and self-insurance liabilities.

2 - Summary of Significant Accounting Policies, continued*Recently Adopted Accounting Pronouncements*

In fiscal year 2018, the University early adopted ASU 2018-15, Intangibles – Goodwill and Other Internal Use Software, which requires a customer in a cloud computing arrangement (i.e. hosting arrangement) that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract are amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. During fiscal year 2018, the University entered into a cloud computing arrangement that is a service contract with Workday, Inc. and capitalized implementation costs of \$1,977,183 which are included in property and equipment on the statement of financial position at June 30, 2018.

Future Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU provides for a variety of changes to the presentation of the financial statements of not-for-profit entities, including changing from three classes of net assets to two classes of net assets, enhancing disclosure requirements related to liquidity concerns and endowment management, a requirement to present expenses classified by both their nature and their function and other changes to presentation and disclosure. This standard is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The University is presently evaluating the impact of the ASU on the University's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard's core principle is that an entity will recognize revenue when it transfers 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. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The ASU is effective for annual reporting periods beginning after December 15, 2017. The University is presently evaluating the impact of the ASU on the University's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the consolidated statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of revenue recognition in the consolidated statement of activities. This standard is effective for fiscal years beginning after December 15, 2018. The University is presently evaluating the impact of the ASU on the University's consolidated financial statements.

Reclassification

The presentation of contributions restricted for long-term investment on the consolidated statements of cash flow for fiscal year 2017 has been updated to conform to the fiscal year 2018 presentation. In the prior year consolidated financial statements, contributions restricted for long-term investment was shown as an addition to net cash from operating activities instead of as a reduction to net cash from operating activities and as a reduction to cash from financing activities instead of as an addition to cash from financing activities. This presentation has been corrected in the current year consolidated financial statements, and as a result, fiscal year 2017 net cash from operating activities changed from \$22,473,438 as previously presented to (\$14,449,674) as currently presented, and net cash from financing activities changed from (\$19,435,053) as previously presented to \$17,488,059 as currently presented. Fiscal year 2017 net change in cash and cash equivalents did not change as a result of this correction.

3 - Accounts Receivable

Accounts receivable as of June 30 are as follows:

	2018	2017
Students	\$ 1,343,716	\$ 1,746,935
Grants	1,287,781	1,022,838
Agency funds	278,212	55,540
Other	996,148	772,423
Accounts receivable	3,905,857	3,597,736
Less: Allowance for uncollectible accounts	(451,792)	(419,518)
Accounts receivable, net	\$ 3,454,065	\$ 3,178,218

Student accounts receivable are reported at the estimated net realizable amount and are written off after one year. Grants receivable are due primarily from federal and state agencies and are considered fully collectible. An allowance for doubtful accounts is established based on prior collection experience.

4 - Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30:

	2018	2017
Unconditional contributions expected to be collected in:		
Less than one year	\$ 13,547,054	\$ 11,563,801
One to five years	20,958,639	26,214,771
Over five years	504,850	360,400
Charitable remainder trusts held by others	2,293,124	2,366,618
Contributions receivable	37,303,667	40,505,590
Less:		
Unamortized discount	(1,488,983)	(1,408,124)
Allowance for uncollectible pledges	(2,516,570)	(2,046,633)
Contributions receivable, net	\$ 33,298,114	\$ 37,050,833

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. The discount rate used for contributions receivable ranged from .33% and 6.2% at June 30, 2018 and 2017. The discount rate used for charitable remainder trusts held by others averaged approximately 5.6% at June 30, 2018 and 2017.

As of June 30, 2018 and 2017, the University has conditional contributions totaling \$400,000 and \$500,000, respectively. The outstanding conditional contribution, if received, will be restricted for the study away program.

At June 30, 2018 and 2017, gross written unconditional promises to give from members of the Board of Trustees and Officers of the University were \$2,658,254 and \$582,560, respectively.

5 - Investments

Investments by security type as of June 30 are as follows:

	2018	2017
Equities		
U.S. equity	\$ 57,306,516	\$ 56,542,424
U.S. equity funds	71,060,940	70,797,506
Developed international equity	101,061,759	99,169,411
Emerging markets	47,852,814	45,501,500
Closely-held stock	455,818	200,075
Fixed Income		
Bond funds	49,229,842	50,760,907
U.S. government bond funds	46,043	25,232
Hedged Strategies	144,483,308	125,831,099
Private Capital	63,800,757	48,408,446
Other		
Real estate	281,399	108,677
Real asset funds	47,662,260	44,909,633
Funds held in perpetual trust by others	4,821,380	4,657,936
Short-term investments	6,285,724	2,623,269
Receivable from redemptions	131,418	23,503,830
Total fair value	<u>594,479,978</u>	<u>573,039,945</u>
Real estate ⁽¹⁾	1,217,580	1,274,450
Private capital ⁽¹⁾	<u>2,724,448</u>	<u>2,070,878</u>
Total at cost	<u>3,942,028</u>	<u>3,345,328</u>
Total investments	\$ <u>598,422,006</u>	\$ <u>576,385,273</u>
Total cost	\$ <u>452,284,361</u>	\$ <u>451,426,682</u>

(1) Direct investments in real estate and specific private capital investments are recorded at cost if purchased and at fair value at the date of the gift if donated. Investments recorded at cost are reviewed annually for impairment. No impairment losses were recorded in fiscal years 2018 and 2017.

The fair value of investments held by the University under split-interest agreements was approximately \$3.5 million at June 30, 2018 and 2017. The University's investment activity for the years ended June 30 is detailed below. Management fees are netted against interest and dividends and totaled \$3.6 million and \$4.2 million in fiscal years 2018 and 2017, respectively.

Net investment return on investments:

	2018	2017
Interest and dividends	\$ 10,374,151	\$ 5,290,608
Net realized gains from sales of investments	23,088,349	27,384,230
Net unrealized gain on investments	27,863,590	36,050,269
Total net investment return	61,326,090	68,725,107
Included in the consolidated statement of activities as investment return designated for current operations:		
Endowment spending	(33,044,847)	(30,125,080)
Other investment income	(1,587,230)	(1,487,880)
Investment return in excess of amounts designated for current operations	\$ <u>26,694,013</u>	\$ <u>37,112,147</u>

6 - Equity Interest in Hollingsworth Funds, Inc.

In December 2000, the equity interest of John D. Hollingsworth On Wheels, Inc. and substantial real estate holdings passed to an Internal Revenue Service (IRS) qualified supporting organization, Hollingsworth Funds, Inc. (the "Funds") upon the death of John D. Hollingsworth, the company's founder and sole stockholder. According to Mr. Hollingsworth's last will and testament, Furman University will receive approximately forty-five percent of the annual distribution to beneficiaries of the Funds. During the year ending June 30, 2004, the estate of Mr. Hollingsworth cleared probate court and, accordingly, the University recognized its equity interest in his estate of \$115,346,777. The University and the Funds are financially inter-related organizations for financial reporting purposes and as a result, the University accounts for this interest under the equity method of accounting and recognizes its share of changes in net assets of the Funds.

The University recognized unrealized gains of \$6,803,326 for fiscal year 2018 and \$2,395,613 for fiscal year 2017 which are included in the investment return in excess of amounts designated for current operations on the consolidated statements of activities. Income distributions from the Funds, which are reported as investment returns in the consolidated statement of activities, were \$3,463,757 and \$3,288,222 for fiscal years 2018 and 2017, respectively.

Summarized unaudited financial information of the Funds as of and for the years ended December 31 is as follows:

	2017	2016
Total assets	\$ 372,814,044	\$ 353,719,203
Total liabilities	9,347,159	5,295,869
Net assets	363,466,885	348,423,334
Total liabilities and net assets	\$ 372,814,044	\$ 353,719,203
Share of net assets	\$ 164,374,991	\$ 157,571,665
Revenues and gains	\$ 30,899,640	\$ 21,278,484
Expenses and losses	(15,986,163)	(15,269,935)
Income tax provision	(14,480)	(902,868)
Equity in net income of subsidiaries	144,554	191,512
Change in net assets	\$ 15,043,551	\$ 5,297,193
Share of change in net assets	\$ 6,803,326	\$ 2,395,613

7 - Endowment

The University's endowment consists of more than 900 separate funds established over many years for scholarships, professorships, academic programs and general institutional support. Endowment related net assets include donor-restricted endowments, board-designated endowments, the University's equity interest in Hollingsworth Funds, Inc., and interests in perpetual trusts held by others. Gift annuities and pledges are not considered components of the endowment.

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowments under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), barring the existence of any donor-specific provisions, is to preserve intergenerational equity. Under this broad guideline, future endowment beneficiaries should receive at least the same level of economic support that the current generation enjoys. The overarching objective is to preserve and enhance the real (inflation-adjusted) purchasing power of the fund in perpetuity.

UPMIFA specifies that unless stated otherwise in a gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, the University reports the historical value for such endowments as permanently restricted net assets and the net accumulated appreciation as temporarily restricted net assets. In this context, historical value represents the original value of initial gifts restricted as permanent endowment plus the original value of subsequent gifts, and if applicable, the value of accumulations made in accordance with the direction of specific donor gift agreements.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The University expects its endowment funds, over the majority of rolling five year periods, to provide an average annual real rate of return of approximately 5% annually. 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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation with investments in equity, fixed income, hedged, private capital, and natural resource/real asset strategies to achieve its long-term, risk-adjusted return objectives.

The Board designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. Specific appropriation for expenditure of the University's endowment funds occurs each spring when the Board approves the University's operating budget for the ensuing year. The University's endowment spending rate is based on 4.5% of the "spending base" established as of June 30, 2000. The base amount is increased at a rate of 4% annually, plus the nominal value of endowment gifts received through December 31 of the previous year.

The University considered the expected return on its endowment, when it established these policies. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to or greater than planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

7 - Endowment, continued

Endowment net assets consist of the following at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (19,092)	\$ 391,866,132	\$ 192,330,415	\$ 584,177,455
Board-designated endowment funds	<u>118,677,411</u>	<u>-</u>	<u>-</u>	<u>118,677,411</u>
Total endowed net assets	\$ <u>118,658,319</u>	\$ <u>391,866,132</u>	\$ <u>192,330,415</u>	\$ <u>702,854,866</u>

Endowment net assets consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (19,938)	\$ 372,286,412	\$ 188,554,017	\$ 560,820,491
Board-designated endowment funds	<u>100,225,742</u>	<u>-</u>	<u>-</u>	<u>100,225,742</u>
Total endowed net assets	\$ <u>100,205,804</u>	\$ <u>372,286,412</u>	\$ <u>188,554,017</u>	\$ <u>661,046,233</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 95,477,610	343,470,990	170,781,940	609,730,540
Investment return:				
Investment income	5,452,067	24,865,438	-	30,317,505
Net appreciation	<u>6,146,950</u>	<u>26,938,735</u>	<u>224,978</u>	<u>33,310,663</u>
Total investment return	11,599,017	51,804,173	224,978	63,628,168
Gifts and additions to endowment, net	265,506	-	17,547,099	17,812,605
Distributions	<u>(7,136,329)</u>	<u>(22,988,751)</u>	<u>-</u>	<u>(30,125,080)</u>
Endowment net assets, June 30, 2017	100,205,804	372,286,412	188,554,017	661,046,233
Investment return:				
Investment income	5,822,561	25,007,382	-	30,829,943
Net appreciation	<u>3,623,662</u>	<u>22,494,663</u>	<u>61,531</u>	<u>26,179,856</u>
Total investment return	9,446,223	47,502,045	61,531	57,009,799
Gifts and additions to endowment, net	7,504,263	143,025	10,196,393	17,843,681
Donor designation changes	9,115,634	(2,634,108)	(6,481,526)	-
Distributions	<u>(7,613,606)</u>	<u>(25,431,241)</u>	<u>-</u>	<u>(33,044,847)</u>
Endowment net assets, June 30, 2018	\$ <u>118,658,319</u>	\$ <u>391,866,132</u>	\$ <u>192,330,415</u>	\$ <u>702,854,866</u>

7 - Endowment, continued

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. As of June 30, 2018 and 2017, the University had deficiencies of this nature of \$19,092 and \$19,938, respectively. These deficiencies resulted from unfavorable market declines that occurred after the investment of recent permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level will be classified as an increase in unrestricted net assets or permanently restricted net assets, as applicable. Management believes these deficiencies will be relatively short-term in duration.

Descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows:

	<u>2018</u>	<u>2017</u>
Permanently Restricted Net Assets		
(1) The portion of perpetual funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ <u>192,330,415</u>	\$ <u>188,554,017</u>
Total endowment funds classified as permanently restricted net assets	\$ <u><u>192,330,415</u></u>	\$ <u><u>188,554,017</u></u>
Temporarily Restricted Net Assets		
(1) Term endowment funds	\$ 164,506,773	\$ 158,459,297
(2) The portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Without purpose restrictions	15,602,759	17,302,384
With purpose restrictions	<u>211,756,600</u>	<u>196,524,731</u>
Total endowment funds classified as temporarily restricted net assets	\$ <u><u>391,866,132</u></u>	\$ <u><u>372,286,412</u></u>

8 - Lease Receivable

The Foundation's ground lease with Upstate Senior Living, Inc. was amended and restated on September 17, 2017 to include the lease on Phase I parcel, as set forth in the existing lease, and the lease of the Phase II parcel. The amended and restated lease is for a term of one hundred years which ends August 31, 2116. Cumulative lease revenue for Phase I totals \$122,942,916 and for Phase II totals \$61,323,943, both of which is recognized on the straight line basis over the one-hundred year lease term. Lease payments on Phase II are deferred until January 15, 2019. As of June 30, 2018 and 2017, the lease receivable totaled \$10,942,271 and \$9,296,383, respectively. The University recognized lease revenue of \$1,749,875 and \$837,722 for fiscal year 2018 and 2017, respectively, which are included in other non-operating revenue on the consolidated statements of activities. An allowance for uncollectible lease receivable is established based on prior collection experience, and management has determined that an allowance is not required at June 30, 2018 and 2017.

9 - Notes Receivable

Notes receivable as of June 30 are as follows:

	2018	2017
Federal Perkins loans	\$ 4,200,750	\$ 4,869,652
Institutional loans	33,701	39,776
Notes receivable	<u>4,234,451</u>	<u>4,909,428</u>
Less allowance for doubtful accounts:		
Beginning of year	(360,315)	(233,187)
Change	(83,715)	(127,128)
End of year	<u>(444,030)</u>	<u>(360,315)</u>
Notes receivable, net	<u>\$ 3,790,421</u>	<u>\$ 4,549,113</u>

Student notes receivable:

The University makes uncollateralized student loans which are funded through the Federal Perkins revolving loan fund and an institutional loan fund created by the University to assist students in funding their education. The University acts as agent for the federal government in administering the Perkins revolving loan program. Student loans represented .3% and .4% of total assets at June 30, 2018 and 2017, respectively.

The availability of funds for loans under the Perkins federal revolving loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. The Perkins federal revolving loan program expired in September 2017. The University is currently evaluating the impact of the expiration on the University's consolidated financial statements.

The aging of notes receivable as of June 30, 2018 is presented as follows:

	Enrolled or Grace Borrowers	Current	Days Past Due				Total
			30-59	60-89	90-120	120+	
Federal Perkins Loans	\$ 1,567,728	\$ 1,873,764	\$ 241,060	\$ 1,000	\$ 6,134	\$ 511,064	\$ 4,200,750
Institutional Loans	-	8,378	-	-	-	25,323	33,701
Total Notes Receivable	<u>\$ 1,567,728</u>	<u>\$ 1,882,142</u>	<u>\$ 241,060</u>	<u>\$ 1,000</u>	<u>\$ 6,134</u>	<u>\$ 536,387</u>	<u>\$ 4,234,451</u>
Percentage of Total	<u>37.0%</u>	<u>44.4%</u>	<u>5.7%</u>	<u>0.0%</u>	<u>.2%</u>	<u>12.7%</u>	<u>100.0%</u>

9 - Notes Receivable, continued

The aging of notes receivable as of June 30, 2017 is presented as follows:

	Enrolled or Grace Borrowers	Current	Days Past Due				Total
			30-59	60-89	90-120	120+	
Federal Perkins Loans	\$ 2,349,372	\$ 1,923,062	\$ 121,439	\$ -	\$ 3,753	\$ 472,026	\$ 4,869,652
Institutional Loans	-	6,165	-	-	23,369	10,242	39,776
Total Notes Receivable	<u>\$ 2,349,372</u>	<u>\$ 1,929,227</u>	<u>\$ 121,439</u>	<u>\$ -</u>	<u>\$ 27,122</u>	<u>\$ 482,268</u>	<u>\$ 4,909,428</u>
Percentage of Total	<u>47.9%</u>	<u>39.3%</u>	<u>2.5%</u>	<u>0.0%</u>	<u>.5%</u>	<u>9.8%</u>	<u>100.0%</u>

10 - Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Land and land improvements	\$ 33,871,010	\$ 32,631,519
Buildings	332,057,222	320,864,925
Equipment	72,211,366	67,579,437
Library books	26,027,726	25,670,847
Collections	3,715,377	3,774,999
Construction in progress	3,143,695	10,709,578
	<u>471,026,396</u>	<u>461,231,305</u>
Less accumulated depreciation	<u>(195,954,242)</u>	<u>(185,301,431)</u>
Total	\$ <u>275,072,154</u>	\$ <u>275,929,874</u>

Depreciation expense totaled \$13,909,291 and \$13,063,277 in 2018 and 2017, respectively, and included depreciation expense for assets held under capital leases of \$217,591 and \$225,665, respectively, for the same periods.

The University has identified unconditional asset retirement obligations ("ARO"), primarily for the costs of asbestos removal and disposal. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related asset by the same amount as the liability. The liabilities were established using an inflation rate of 3% and a discount rate of 4.2% based on relevant factors at origination. ARO liabilities of \$1,416,638 and \$1,385,698 for fiscal years 2018 and 2017, respectively, are included in payables and accrued liabilities in the consolidated statements of financial position. Accretion expense related to the ARO was \$30,940 and \$29,929 for the years ended June 30, 2018 and 2017, respectively.

11 - Long-Term Debt and Capital Leases

Outstanding long-term debt and capital lease obligations as of June 30 were as follows:

	<u>2018</u>	<u>2017</u>
Educational Facilities Revenue Bonds:		
Series 2006B, due in varying installments (ranging from \$625,000 to \$1,220,000 with a balloon payment of \$13,375,000) through October 1, 2039. The bonds bear interest, payable monthly, at a variable rate (1.57% at June 30, 2018) which is determined by the remarketing agent pursuant to the Series 2006B Indenture.	\$ 38,290,000	\$ 39,200,000
Series 2010, serial bonds, due in varying installments (ranging from \$250,000 to \$1,845,000) through October 1, 2026. The bonds bear interest, payable semi-annually, at rates ranging from 3.000% to 5.000%.	9,410,000	10,860,000
Series 2015, serial bonds, due in varying installments (ranging from \$485,000 to \$5,600,000) through October 1, 2045. The bonds bear interest, payable semi-annually, at rates ranging from 3.000% to 5.000%.	64,205,000	64,690,000
Note Payable:		
Note payable due in varying monthly installments (ranging from \$25,712 to \$28,730) through September 30, 2020. The note bears interest, payable monthly, at 2.16%.	-	4,076,200
Par amount of long-term debt	111,905,000	118,826,200
Unamortized bond issuance costs	(771,102)	(841,068)
Unamortized net premium	3,002,937	3,393,382
Total long-term debt	114,136,835	121,378,514
Capital leases	215,642	423,408
Long-term debt and capital leases	\$ 114,352,477	\$ 121,801,922

The preceding table reflects fixed/variable allocations before the effects of an interest rate exchange agreement used by the University to manage its debt portfolio. The exchange agreement is covered in more detail in a subsequent note.

11 - Long-Term Debt and Capital Leases, continued

Aggregate maturities of long-term debt and capital leases subsequent to June 30, 2018 are as follows:

2018	\$ 3,155,013
2019	3,125,629
2020	3,245,000
2021	3,390,000
2022	3,555,000
Thereafter	<u>95,650,000</u>
Total	\$ <u>112,120,642</u>

The estimated fair value of the University's long-term debt, including current maturities, at June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Educational Facilities Revenue Bonds	\$ 117,119,535	\$ 121,760,348
Term Loans	-	4,076,200
Capital leases	<u>215,642</u>	<u>423,408</u>
Total estimated fair value of long-term debt	\$ <u>117,335,177</u>	\$ <u>126,259,956</u>

Interest expense on a cash and accrual basis for the years ended June 30 follows:

	<u>2018</u>	<u>2017</u>
Cash paid for interest	\$ 3,979,335	\$ 4,012,950
Amortization of bond premium	(390,445)	(412,702)
Change in year-end accrual	45,396	34,373
Interest cost capitalized	<u>(96,093)</u>	<u>(128,441)</u>
Total interest expense	\$ <u>3,538,193</u>	\$ <u>3,506,180</u>

Liquidity support for the Series 2006B variable rate debt is provided by a bank standby bond purchase agreement. The commitment expires in July 2020. Since initiation of the credit agreement, there have been no borrowings required to support redemptions of variable rate debt. The University's standby bond purchase agreement contains certain covenants and restrictions involving maintenance of a specified debt coverage ratio. Management believes it is in compliance with all covenants and restrictions at June 30, 2018.

The University capitalizes and amortizes on a straight-line basis the original issue premium or discount and costs related to applicable bond issues. At June 30, 2018 and 2017, unamortized bond issuance costs, net, of \$771,102 and \$841,068, respectively, is included in bonds, notes, and leases payable on the University's consolidated statements of financial position. Additionally, unamortized original issue net premium on related bonds of \$3,002,937 and \$3,393,382 for the years ended June 30, 2018 and 2017, respectively, is included in bonds, notes and leases payable on the University's consolidated statements of financial position. Net amortization expense for issuance costs and premiums was \$320,479 and \$339,039 for the years ended June 30, 2018 and 2017, respectively.

On February 28, 2018, the University paid off the note payable. The payoff amount of \$3,894,359 consisted of \$3,887,595 of principal and \$6,764 of accrued interest.

12 - Interest Rate Exchange Arrangement

The University manages the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense from variable-rate debt, by using an interest rate exchange agreement. The agreement took effect on September 29, 2006 and continues to its scheduled expiration in October 2026.

The notional amount outstanding was \$9,980,000 and \$10,890,000 at June 30, 2018 and 2017, respectively. Under this exchange agreement, the University receives a floating rate of interest based on 68% of LIBOR and makes payments at a fixed interest rate of 3.635% on the notional amount. Under certain circumstances, the University may be required to post collateral or, in an event of default, the counterparty may terminate the transaction.

Periodic net cash settlements paid to counterparties totaled \$244,533 and \$322,738 in fiscal 2018 and 2017, respectively, and were reflected as adjustments to interest expense.

As of June 30, 2018, the University's adjusted long-term debt portfolio, after taking into consideration the aforementioned derivative, was approximately 75% fixed and 25% variable.

13 - Fair Value Measurement

The University uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

Investments measured at NAV are those which the University has applied a practical expedient and concluded that the NAV reported by the underlying fund approximated the fair value of investments, unless it is probable that all or a portion of the investment will be sold for an amount different from the NAV. The University has no plans to sell these investments in the secondary market at amounts substantially different from NAV.

13 - Fair Value Measurement, continued

The following is a summary of the levels within the fair value hierarchy for the University's assets and liabilities measured at fair value at June 30:

2018:	Investments	Investments categorized in the fair value hierarchy			
	Measured at NAV	Level 1	Level 2	Level 3	Total
Assets					
Investments					
Equities					
U.S. equity	\$ -	\$ 57,306,516	\$ -	\$ -	\$ 57,306,516
U.S. equity funds	70,308,494	752,446	-	-	71,060,940
Developed international equity	68,847,839	32,213,920	-	-	101,061,759
Emerging markets	47,673,625	179,189	-	-	47,852,814
Closely-held stock	-	-	-	455,818	455,818
Fixed Income					
Bond funds	38,006,859	11,222,983	-	-	49,229,842
U.S. government bond funds	46,043	-	-	-	46,043
Hedged Strategies	137,714,892	6,768,416	-	-	144,483,308
Private Capital	63,800,757	-	-	-	63,800,757
Other					
Real estate	-	-	-	281,399	281,399
Real asset funds	47,453,537	208,723	-	-	47,662,260
Funds held in perpetual trust by others	-	-	-	4,821,380	4,821,380
Short-term investments	-	6,285,724	-	-	6,285,724
Receivable from redemptions	-	131,418	-	-	131,418
Total investments	\$ 473,852,046	\$ 115,069,335	\$ -	\$ 5,558,597	\$ 594,479,978
Liabilities					
Interest rate exchange agreement	\$ -	\$ -	\$ 743,369	\$ -	\$ 743,369

13 - Fair Value Measurement, continued

2017:	Investments Measured at NAV	Investments categorized in the fair value hierarchy			
		Level 1	Level 2	Level 3	Total
Assets					
Investments					
Equities					
U.S. equity	\$ -	\$ 56,542,424	\$ -	\$ -	\$ 56,542,424
U.S. equity funds	70,062,032	735,474	-	-	70,797,506
Developed international equity	66,038,928	33,130,483	-	-	99,169,411
Emerging markets	45,309,852	191,648	-	-	45,501,500
Closely-held stock	-	-	-	200,075	200,075
Fixed Income					
Bond funds	38,890,408	11,870,499	-	-	50,760,907
U.S. government bond funds	25,232	-	-	-	25,232
Hedged Strategies	119,286,763	6,544,336	-	-	125,831,099
Private Capital	48,408,446	-	-	-	48,408,446
Other					
Real estate	-	-	-	108,677	108,677
Real asset funds	44,706,226	203,407	-	-	44,909,633
Funds held in perpetual trust by others	-	-	-	4,657,936	4,657,936
Short-term investments	-	2,623,269	-	-	2,623,269
Receivable from redemptions	-	23,503,830	-	-	23,503,830
Total investments	\$ 432,727,887	\$ 135,345,370	\$ -	\$ 4,966,688	\$ 573,039,945
Liabilities					
Interest rate exchange agreement	\$ -	\$ -	\$ 1,201,886	\$ -	\$ 1,201,886

The majority of the University's underlying fund managers use a market approach to value an investment. In addition, the following inputs/valuation techniques are used – comparable security analysis, recent transactions, earnings and cash flow forecasts, market multiple analysis, discounted cash flow/time value of money, internal valuation models, third-party appraisals, bona-fide offers, and 'at cost' for the period just subsequent to acquisition.

The classification of a financial instrument within Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement.

All net realized and unrealized gains and losses on Level 3 investments are reflected in the consolidated statements of activities as investment return in excess of amounts designated for current operations.

13 - Fair Value Measurement, continued

A roll-forward of investments in which significant unobservable inputs (Level 3) were used in determining fair value is as follows:

Fair Value Measurements Using Level 3 Inputs

Balance – June 30, 2017	\$	4,966,688
Net realized gains		101,913
Purchases		200,102
Net unrealized gains		289,894
Balance – June 30, 2018	\$	<u>5,558,597</u>

Fair Value Measurements Using Level 3 Inputs

Balance – June 30, 2016	\$	4,715,210
Net realized losses		13,209
Purchases		13,291
Net unrealized losses		224,978
Balance – June 30, 2017	\$	<u>4,966,688</u>

13 - Fair Value Measurement, continued

For investments in entities that calculate net asset value or its equivalent whose fair value is not readily determinable, the following table provides information about the relative liquidity of these investments. The fair values of these investments have been estimated using net asset value per share of the investments, unless noted. Management is not aware of any factors that would impact net asset value as of June 30, 2018.

	Fair Value	Unfunded Commitments	Redemption Frequency (if applicable)	Redemption Notice Period
U.S. equity funds ^(a)	\$ 70,308,494	\$ -	Daily - Quarterly	0 – 60 days
Developed international equity ^(b)	\$ 68,847,839	\$ -	Daily – Monthly	0 – 10 days
Emerging markets ^(c)	\$ 47,673,625	\$ -	Daily - Monthly	0 – 90 days
Bond funds ^(d)	\$ 38,006,859	\$ -	Daily – Monthly	0 – 30 days
U.S. government bond funds ^(e)	\$ 46,043	\$ -	Daily	2 days
Hedged Strategies ^(f)	\$ 137,714,892	\$ 6,400,000	Monthly – 5 Years	0 – 100 days
Private Capital ^(g)	\$ 63,800,757	\$ 47,158,029	N/A	N/A
Real asset funds ^(h)	\$ 28,016,366	\$ 12,840,039	Daily-Quarterly	0 – 60 days
Non-marketable real asset funds ⁽ⁱ⁾	\$ 19,437,171	\$ 3,718,522	N/A	N/A

(a) Includes investments primarily in long-only and active extension funds that have both long and short U.S. equity positions. The funds are broadly diversified and have net exposure equal to 100% net long. The active extension funds utilize strategies that incorporate fundamental and quantitative methods and seek to outperform their respective benchmarks on a risk-adjusted basis.

(b) Includes investments primarily in diversified, long-only commingled funds that invest in developed international markets. There can be exposure to North America and emerging markets within these funds. The funds are actively managed and seek to outperform their respective benchmarks on a risk-adjusted basis by over/under weighting countries, sectors and securities.

(c) Includes investments primarily in diversified, long-only commingled funds that invest in emerging market equities. The funds are actively managed and seek to outperform their respective benchmarks on a risk-adjusted basis by over/underweighting countries, sectors, and securities.

(d) Includes investments primarily via an active global government sovereign and emerging market bond fund and smaller positions in active global high yield and loans, and unconstrained multi-sector bond funds. The active funds seek to add value versus their benchmarks by over/underweighting sectors and countries/currencies (in the case of the global government bond fund).

13 - Fair Value Measurement, continued

- (e) Includes investments in a fund that invests in US Treasury Inflation Protection Securities.
- (f) Includes direct investments in equity long/short hedge funds, multi-strategy hedge funds, credit long/short hedge funds, a global macro hedge fund, and one diversified hedge fund-of-funds. The fund-of-funds contains a variety of different underlying hedge funds (equity long/short, credit-oriented, fixed-income arbitrage, event-driven, relative value) and currently is on a rolling one-year lock-up. On average, the direct funds generally have net long exposure (15%-70%) and gross exposure ranging from 90% to 250%. Less than 30% of the hedged strategy exposure is considered "locked up" with redemption arrangements one year or less. These exclude funds with gate provisions within their liquidity terms.
- (g) Includes investments primarily in private equity and venture capital funds, private debt and structured credit funds, fund-of-funds, and co-investments which invest in or lend to private partnerships that seek to grow capital and/or generate cash flow over longer periods of time. The strategies typically utilized are to take ownership positions in early-stage or start-up ventures, growth equity, potential turn-around candidates or buyouts, private lending, CLO equity, or other special situations. Because of the longer-term nature of these investment strategies, the University does not have the ability to withdraw or redeem funds. Instead, the partnerships return money to the University over a longer period of time, usually 3-12 years after the initial subscription, but could be longer in the event that extensions are utilized.
- (h) Includes investments primarily in commodities (an unlevered fund that invests in a variety of diversified, liquid futures contracts), and treasury inflation-protected securities "TIPS" (a fund that provides market exposure to "TIPS," while adding value via various bond arbitrage relative value strategies).
- (i) Includes investments in longer term private capital direct investments and partnerships that invest in natural resource assets (oil and gas, metals and mining, renewable energy, and power generation) and real estate funds and/or fund-of-funds (raw land, buildings, publicly-traded securities/commingled funds, and private partnerships) and asset-based leasing opportunities. Because of the longer-term nature of these investment strategies, the University does not have the ability to withdraw or redeem funds. Instead, the partnerships return money to the University over a longer period of time, usually 3-12 years after the initial subscription.

14 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the years ended June 30:

Purpose restrictions accomplished	2018	2017
Instruction and academic support	\$ 5,019,013	\$ 1,737,399
Research	132,010	186,519
Student services	825,145	676,443
Institutional support	928,620	244,277
Student aid	2,790,471	3,072,679
Endowment distributions	25,431,241	22,988,751
Other	1,604,891	3,322,463
Satisfaction of program restrictions from operations	36,731,391	32,228,531
Capital improvements	677,230	1,661,255
Total	\$ 37,408,621	\$ 33,889,786

15 - Composition of Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Instruction and academic support	\$ 172,726,202	\$ 170,336,435
Public service	19,999	165,604
Student services	3,048,432	2,398,917
Institutional support	4,832,036	3,442,573
Student aid	975,148	787,373
Capital projects	1,643,104	2,001,547
Net contributions due in future periods	202,993	112,805
Unspecified designation	152,806	213,054
Endowment earnings	227,359,359	213,827,118
Total	\$ 410,960,079	\$ 393,285,426

In accordance with donor stipulations, permanently restricted assets are held in perpetuity. The income derived from these net assets is to be used as follows at June 30:

	2018	2017
Student aid	\$ 117,539,103	\$ 119,411,249
Instruction and academic support	80,792,052	70,401,205
Institutional support	453,466	565,208
Student services	1,632,560	8,003,201
Capital projects and building maintenance	15,825,661	16,962,049
Total	\$ 216,242,842	\$ 215,342,912

16 - Retirement Plan

The University sponsors a defined contribution retirement plan that covers substantially all full-time faculty and staff employees. Contributions under this plan are applied to individual annuities issued to each plan participant. Employer contributions to the plan amount to 7.5% or 12.5% of base compensation based on years of service or attained age. Retirement expense was approximately \$6.4 million and \$6.0 million for the years ended June 30, 2018 and 2017, respectively.

17 - Development Expenses

The University incurred expenses related to development and fund-raising amounting to approximately \$4.4 million and \$4.7 million during each of the years ended June 30, 2018 and 2017, respectively. Such expenses are included in Institutional support.

18 - Commitments and Contingencies*Construction and equipment*

At June 30, 2018, open contracts for the construction or purchase of physical properties amounted to approximately \$2.5 million. During fiscal year 2018, the University completed phase 1 of its Workday, Inc. implementation. Phase II of the Workday, Inc. implementation amounting to approximately \$3.2 million will be completed by Fall 2020.

Self-Insurance

The University provides employee healthcare benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third-party administrator. For the years ended June 30, 2018 and 2017, the self-insurance liability was \$937,245 and \$833,300, respectively, and is included in payables and accrued liabilities on the consolidated statements of financial position.

Litigation

The University is engaged in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on the University's financial position.

Financial Aid

Federally and state funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the University. No such audits have occurred as of the date of the audit report; therefore, no provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

19 - Subsequent Events

On July 19, 2018, the University redeemed \$9,000,000 of its Series 2006B variable rate bonds. The principal amount of the redeemed bonds was applied as a credit against the sinking fund requirements of the Series 2006B Indenture. Principal payments on Series 2006B will continue to be due in varying installments through October 1, 2039, however, the next principal payment is not due until 2026. The amounts in the aggregate maturities of long-term debt and capital leases table in Note 11 do not reflect the \$9,000,000 early redemption of the Series 2006B variable rate bonds. The University evaluated events subsequent to June 30, 2018 and through October 25, 2018, the date on which the consolidated financial statements were available for issuance, and there are no other subsequent events requiring disclosure.