



BALDWIN WALLACE UNIVERSITY

Consolidated Financial Statements and Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

BALDWIN WALLACE UNIVERSITY

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Baldwin Wallace Summary of Operations

Founded in 1845 as Baldwin Institute, BW was one of the first colleges and universities in Ohio to admit students without regard to race or gender. Today, Baldwin Wallace continues as an independent, coeducational institution, accredited by the Higher Learning Commission. The academic program is rooted in the liberal arts but includes a wide range of majors, minors, and other programs containing abundant opportunities for career exploration and application.

Undergraduate degrees offered are the Bachelor of Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Music, Bachelor of Music Education, and Accelerated Bachelor of Science in Nursing. The nursing offering is new. It is an intensive one-year program designed for bachelor's degree holders seeking a second degree in nursing.

Baldwin Wallace offers graduate programs leading to the degrees of Master of Business Administration, Master of Arts in Education, and Master of Medical Science. The medical science offering is also new. It prepares students for the position of physician assistant. BW also has certificate programs in a variety of specialties.

Because of the present wide range of the academic offerings, the institution changed its name from Baldwin-Wallace College to Baldwin Wallace University at the beginning of this fiscal year, July 1, 2012. The new name more accurately reflects the current structure.

The campus is in Berea, Ohio, a suburb southwest of Cleveland.

Baldwin Wallace University does not discriminate because of race, creed, age, disabilities, national origin, gender, or sexual orientation in admissions, programs, or administration.

The 2012-2013 academic year opened with a total fall semester enrollment of 4,173. This total included 2,981 full-time undergraduate students, 474 part-time undergraduates, and 718 graduate students. The full-time-equivalent enrollment was 3,719, up slightly from 3,700 the previous fall.

Total spending for programs and support was \$89,617,748, up just 1.4% from the previous year. BW continued its long practice of operating with balanced budgets. The operating margin was approximately \$1.7 million. Investment gains on unrestricted funds functioning as endowment, gifts of equipment, and other minor nonoperating items brought the increase in unrestricted net assets to \$2,005,432.

The increase in total net assets was \$16,839,306. The major factor in this increase was endowment and similar investment gains totaling \$9.9 million. Other factors in addition to the increase in unrestricted net assets were gifts to the endowment of \$2.4 million and a \$2.6 increase in other restricted funds. Restricted fund gifts included the gift of an office building located in Berea but not adjacent to the campus. The University can sell this building after a period of two years from the date of gift. Net assets totaled \$256,272,634 at June 30, 2013

The market value of endowment and similar investments at June 30, 2013, was \$124,776,975, up from \$113,889,457 the previous year.

Plant spending totaled approximately \$18.5 million. Construction and major renovations included completion of new and expanded parking lots and green space, new athletic facilities, and renovation and expansion of three residence halls. Plant spending also included lesser renovations to existing buildings and purchases of equipment and furnishings.

Parking and green space. BW obtained permission from the City of Berea to close Jacob Street and a portion of Grand Street adjacent to Strosacker Union and the Welcome Center. A new parking lot opened on the east end of Jacob for the fall semester, accompanied by expanded green space. The Grand Street site contains a walkway and green space.

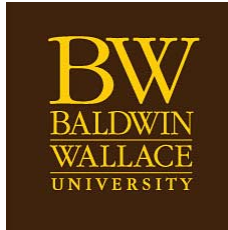
Robert Packard Athletic Center. The center was near completion at the end of the fiscal year. The name honors Robert Packard '65, who coached BW football for 34 years, including 21 as head coach. The complex is in the former Bagley Hall, which was a residence hall and is located next to Finnie Stadium. It includes a lobby and display area, weight room, classroom, offices for football and women's and men's lacrosse, conference rooms, locker rooms and showers, other equipment training, and laundry areas. In addition, work in Finnie Stadium provided for the renovation of locker, shower, and training areas for women's and men's soccer, track, and lacrosse.

Residence Halls Historic Preservation. Baldwin Wallace will receive benefit from historic preservation tax credits to help finance the renovation and expansion of three residence halls, Klein, 63 Beech, and Saylor. This project will provide suite style living, two or three double occupancy rooms connected to a shared bath. Movable furniture will replace built-ins. The complex will also include kitchens, study lounges, a large open pavilion, glass-walled atrium, and bike storage. The three buildings will have a combined capacity of 184 residents. The University expected to open Klein and 63 Beech for the fall semester of the 2013-14 academic year and Saylor for the Spring Semester.

During the 2009-2010 fiscal year, BW undertook to have a portion of the south campus designated as the "Baldwin Wallace University South Campus Historic District" by the National Park Service, and placed on the National Register of Historic Places. The designation includes Marting, Kulas, Kohler, Dietsch, Klein, 63 Beech, Saylor, and Merner-Pfeiffer halls, Lindsay-Crossman Chapel, and the former First Congregational United Church of Christ building purchased during the 2008-2009 year. This designation enables private investors to assist financially with renovations in exchange for federal and state historic preservation tax credits.

To obtain benefit from such credits, Baldwin Wallace forms for-profit limited liability companies with corporate investors. The University has formed two such ventures to date, KCM I and KBS. KBS is doing the residence hall project. The investor's payment for the tax credits is due in the 2013-2014 fiscal year. KCM I renovated Merner-Pfeiffer and the church building, and linked the two with a new building to form the Boesel Musical Arts Center. That work occurred during the 2010-11 and 2011-12 fiscal years, with the investor's payment of \$5.1 million made in 2012. The consolidated financial statements include the two limited liability companies.

Plant financing. Most plant spending comes from gifts restricted for that purpose and the annual operating margin. During this fiscal year, however, the University obtained additional financing by issuing tax exempt bonds. The bonds are dated December 1, 2012 and have a par value of \$16,025,000. The sale yielded \$5,529,126 for building improvements and an escrow fund of \$11,164,863 to retire bonds issued in 2004.



Report of the Administration

This report covers the fiscal year 2013 financial statements and related notes of Baldwin Wallace University, along with supplementary information. The Administration of Baldwin Wallace is responsible for the preparation and content of these statements. They have prepared the statements from the financial records of the University, in conformity with accounting principles generally accepted in the United States of America.

Statements issued by the Financial Accounting Standards Board govern the form and content of private college and university financial statements. The three basic financial statements are the statements of financial position (assets, liabilities and net assets), activities (revenue and expense), and cash flows. Baldwin-Wallace provides additional analytical and nonfinancial data, including enrollment, admissions, and fees, as supplementary information.

The University's accounting system includes internal controls designed to provide reasonable assurance, at appropriate cost, of the reliability of its financial records and the proper safeguarding and use of its assets. These controls are based on established policies and procedures, and they are implemented by trained, skilled personnel, with an appropriate segregation of duties.

The independent auditing firm of KPMG LLP has audited the financial statements in accordance with auditing principles generally accepted in the United States of America. Their opinion appears in this report.

The Board of Trustees exercises its responsibility for the financial statements through the Audit Review Committee. The committee meets at least annually with members of the Administration and representatives of the independent auditing firm to discuss accounting, reporting and internal control matters.

A handwritten signature in blue ink that reads "William M. Reniff". The signature is written in a cursive style.

William M. Reniff
Vice President for Finance and Administration



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Suite 2600
1375 East Ninth Street
Cleveland, OH 44114-1796

Independent Auditors' Report

The Board of Trustees
Baldwin Wallace University:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Baldwin Wallace University (University), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the years ended June 30, 2013 and 2012, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 opinions.



Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baldwin Wallace University, as of June 30, 2013 and 2012, and the changes in its net assets, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements as a whole. The supplementary information included in Schedule I for the years ended June 30, 2013 and 2012 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information included in Schedule I related to the University's 2013 and 2012 financial statements, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedule I related to the University's 2013 and 2012 financial statements, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the statements of financial position of the University as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended (none of which is presented herein), and we expressed unqualified opinions on those financial statements. Such information is the responsibility of management and was derived from and relates directly to the underling accounting and other records used to prepare the respective financial statements. The supplementary information included in Schedule I related to the University's 2011 and 2010 financial statements, except for that portion marked "unaudited," on which we express no opinion, has been subjected to auditing procedures applied in the audits of consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those consolidated financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

The information presented in the Baldwin Wallace Summary of Operations and Report of the Administration is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subject to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Cleveland, Ohio
October 10, 2013

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2013 and 2012

Assets	2013	2012
Operating assets:		
Cash and cash equivalents	\$ 8,157,494	3,980,985
Short-term investments	5,250,812	10,237,041
Student accounts receivable, less allowance for doubtful receivables of \$126,000 in 2013 and \$170,000 in 2012	2,903,750	2,817,930
Other receivables, less allowance for doubtful receivables of \$24,000 in 2013 and \$17,000 in 2012	1,333,381	1,166,277
Inventory	1,942,002	1,688,640
Prepaid expenses	869,365	755,150
Pledges receivable, less allowance for doubtful pledges of \$251,000 in 2013 and \$286,000 in 2012	6,012,225	7,431,305
Student loan notes receivable, less allowance for doubtful loans of \$580,000 in 2013 and 2012	3,728,746	3,920,205
Other assets	37,419	49,670
Total operating assets	<u>30,235,194</u>	<u>32,047,203</u>
Endowment and similar assets:		
Cash equivalents	3,568,089	1,672,617
Investments, at fair value	121,208,886	112,216,840
Total endowment and similar assets	<u>124,776,975</u>	<u>113,889,457</u>
Plant and equipment:		
Grounds	11,373,952	7,528,375
Educational and general buildings	141,992,543	134,004,300
Residence halls	34,811,650	33,222,074
Residences	2,895,247	3,012,392
Furniture and equipment	20,967,282	21,062,911
	<u>212,040,674</u>	<u>198,830,052</u>
Less accumulated depreciation	(87,486,622)	(81,755,232)
Construction in progress	11,221,986	4,440,329
Net plant assets	<u>135,776,038</u>	<u>121,515,149</u>
Total assets	<u>\$ 290,788,207</u>	<u>267,451,809</u>

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	2013	2012
	<u>2013</u>	<u>2012</u>
Liabilities:		
Accounts payable	\$ 2,444,749	2,579,411
Accrued expenses	2,393,072	2,220,813
Deferred revenue and student deposits	4,769,282	3,568,229
Other liabilities	1,829,660	1,457,627
Annuity obligations	3,621,880	3,620,674
Government advances for student loans (Perkins loans)	2,426,930	2,486,727
Long-term debt:		
Bonds issued in 2004	1,005,000	12,085,000
Bonds issued in 2012	16,025,000	—
Total liabilities	<u>34,515,573</u>	<u>28,018,481</u>
Net assets:		
Unrestricted	59,632,449	57,627,017
Temporarily restricted:		
Program	16,949,010	16,411,731
Student financial aid	7,464,773	7,923,693
Plant and equipment	<u>64,641,227</u>	<u>59,333,150</u>
Total temporarily restricted	<u>89,055,010</u>	<u>83,668,574</u>
Permanently restricted:		
Program	51,004,557	46,923,900
Student financial aid	50,820,584	45,889,233
Plant and equipment	<u>5,760,034</u>	<u>5,324,604</u>
Total permanently restricted	<u>107,585,175</u>	<u>98,137,737</u>
Total net assets	256,272,634	239,433,328
Total liabilities and net assets	<u>\$ 290,788,207</u>	<u>267,451,809</u>

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Revenue:		
Tuition and fees	\$ 93,970,429	92,496,615
Less student financial aid grants	(37,401,519)	(36,250,170)
Net tuition and fees	56,568,910	56,246,445
Private gifts and grants	1,350,861	1,422,399
Endowment investment income	1,257,273	1,544,733
Auxiliary enterprises	18,588,862	18,358,427
Other	429,658	449,160
Total revenue	78,195,564	78,021,164
Net assets released from restrictions:		
Program	4,537,598	4,607,465
Student financial aid grants	4,799,458	4,658,290
Plant and equipment	3,799,471	3,575,485
Total net assets released from restrictions	13,136,527	12,841,240
Total revenue and net assets released from restrictions	91,332,091	90,862,404
Expenses:		
Instruction	37,963,448	37,499,765
Academic support	7,723,252	7,479,271
Libraries	1,774,433	1,812,832
Student services	8,822,060	8,318,643
Organized student activities	6,346,372	5,975,829
Institutional support	13,184,920	13,610,524
Auxiliary enterprises	13,803,263	13,689,446
Total expenses	89,617,748	88,386,310
Realized and unrealized endowment investment gains (losses), net	291,089	(220,397)
Increase in unrestricted net assets	2,005,432	2,255,697

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Activities and Changes in Net Assets
Years ended June 30, 2013 and 2012

	2013	2012
Changes in temporarily restricted net assets:		
Revenue:		
Private gifts, grants, and pledges	\$ 9,545,743	7,445,859
Endowment investment income	3,855,027	3,318,962
Government grants	1,558,721	2,118,128
Other	803,925	5,928,823
Total revenue	15,763,416	18,811,772
Net assets released from restrictions:		
Program	(4,537,598)	(4,607,465)
Student financial aid grants	(4,799,458)	(4,658,290)
Plant and equipment	(3,799,471)	(3,575,485)
Total net assets released from restrictions	(13,136,527)	(12,841,240)
Total revenues and net assets released from restriction	2,626,889	5,970,532
Realized and unrealized endowment investment gains (losses), net	2,759,547	(202,966)
Increase in temporarily restricted net assets	5,386,436	5,767,566
Changes in permanently restricted net assets:		
Revenue:		
Private gifts, grants, and pledges	2,454,733	1,909,886
Endowment investment income	109,828	110,241
Other	34,293	82,702
Total revenue	2,598,854	2,102,829
Realized and unrealized endowment investment gains (losses), net	6,848,584	(6,785,378)
Increase (decrease) in permanently restricted net assets	9,447,438	(4,682,549)
Increase in net assets	16,839,306	3,340,714
Net assets at beginning of year	239,433,328	236,092,614
Net assets at end of year	\$ 256,272,634	239,433,328

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase in net assets	\$ 16,839,306	3,340,714
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	7,945,984	7,527,281
Net realized and unrealized (gains) losses on investments	(9,899,220)	7,208,740
Gifts of property and equipment	(3,860,505)	—
Change in student accounts and other receivables	1,166,156	(2,951,303)
Change in inventory and prepaid expenses	(268,628)	(364,986)
Change in accounts payable and accrued expenses	451,182	(235,641)
Change in deferred revenue, annuity obligations, government advances, and other liabilities	1,514,495	(175,472)
Contributions restricted for long-term investment or plant	(6,535,672)	(4,427,100)
Other income restricted for long-term investment or plant	(651,842)	(5,359,483)
Net cash provided by operating activities	<u>6,701,256</u>	<u>4,562,750</u>
Cash flows from investing activities:		
Purchases of plant and equipment	(18,483,028)	(15,609,533)
Purchases of endowment and similar investments	(10,954,259)	(15,151,074)
Sales of endowment and similar investments	11,861,433	14,723,658
Change in short-term investments	4,986,229	(19,352)
Change in endowment cash equivalents	(1,895,472)	(924,738)
Change in student loans	191,459	134,288
Change in other assets	12,251	(15,014)
Net cash used in investing activities	<u>(14,281,387)</u>	<u>(16,861,765)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment or plant	6,535,672	4,427,100
Other income restricted for long-term investment or plant	651,842	5,359,483
Principal payment on bonds issued in 2004	(960,000)	(920,000)
Proceeds from sale of bonds issued in 2012	16,693,989	—
Escrow payment for retirement of 2004 bonds	(11,164,863)	—
Net cash provided by financing activities	<u>11,756,640</u>	<u>8,866,583</u>
Increase (decrease) in cash and cash equivalents	4,176,509	(3,432,432)
Cash and cash equivalents at beginning of year	<u>3,980,985</u>	<u>7,413,417</u>
Cash and cash equivalents at end of year	\$ <u><u>8,157,494</u></u>	\$ <u><u>3,980,985</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 614,599	652,737
Construction in progress in accounts payable	136,660	143,121

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(1) Nature of Organization

Baldwin Wallace, founded in 1845, is an independent, coeducational university in the liberal arts tradition, accredited by the Higher Learning Commission. Undergraduate degrees granted are the Bachelor of Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Music, Bachelor of Music Education, and Accelerated Bachelor of Science in Nursing. Graduate degrees granted are Master of Arts in Education, Master of Business Administration, and Master of Medical Science.

Due to the current diversity of its programs, the institution changed its name effective July 1, 2012, from Baldwin-Wallace College to Baldwin Wallace University.

The University formed two for-profit limited liability companies, KCM 1 and KBS. The consolidated financial statements of Baldwin Wallace University include the accounts of KCM 1 and KBS as described in note 11. The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America. All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Method of Accounting

The accompanying consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The University prepares its consolidated financial statements to focus on the organization as a whole and to present balances and transactions classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that will be met either by actions of the University and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that they are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by donor stipulation or by law that limits their use. The University has primarily reported gains or losses on investments as permanently or temporarily restricted net assets as a result of such donor stipulations or law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

assets are considered to be released over the estimated useful lives of the assets using the University's depreciation policies.

Contributions, including private gifts, grants and pledges (unconditional promises to give), are recognized as revenue in the period received. Contributions of long-lived assets, or of cash or other assets to be used to acquire them, with donor stipulations concerning the use of such long-lived assets, are reported as revenue of the temporarily restricted net asset class. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized. Allowance is made for doubtful collection of contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

(b) Investments

Investments are reported at fair value. With respect to investment funds such as the University's investments managed by The Common Fund for Nonprofit Organizations (Commonfund), the estimated fair values are provided by external investment managers. Commonfund is an institutional investment manager serving higher education, health care, foundations, and other nonprofit institutions. These estimated fair values are reviewed and evaluated by the University management. Due to the inherent uncertainties of these estimates, these estimated fair values may differ from the values that would have been used had a ready market existed for such investments.

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of the specific identification of securities sold. Investment custodial fees are classified as a reduction in investment income for financial reporting purposes.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

The table below provides certain information regarding the cumulative amount of unrealized holding losses for marketable equity and debt securities managed by the University and held as of June 30, 2013 and 2012:

	2013		
	Equity securities	Debt and other securities	Total
Unrealized losses less than one year:			
Amount of unrealized losses	\$ (36,682)	—	(36,682)
Fair value of related securities held in a loss position	878,653	—	878,653
Number of related security positions	16	—	16
Unrealized losses greater than one year:			
Amount of unrealized losses	(2,197,338)	—	(2,197,338)
Fair value of related securities held in a loss position	18,921,733	—	18,921,733
Number of related security positions	21	—	21
Total unrealized losses	(2,234,020)	—	(2,234,020)
Unrealized gains	13,920,220	1,395,461	15,315,681
Net unrealized gains	\$ 11,686,200	1,395,461	13,081,661

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

	2012		
	Equity securities	Debt and other securities	Total
Unrealized losses less than one year:			
Amount of unrealized losses	\$ (1,318,267)	(4,653)	(1,322,920)
Fair value of related securities held in a loss position	11,039,212	507,853	11,547,065
Number of related security positions	20	2	22
Unrealized losses greater than one year:			
Amount of unrealized losses	(5,452,315)	—	(5,452,315)
Fair value of related securities held in a loss position	37,860,012	—	37,860,012
Number of related security positions	20	—	20
Total unrealized losses	(6,770,582)	(4,653)	(6,775,235)
Unrealized gains	5,929,102	1,859,558	7,788,660
Net unrealized gains	\$ (841,480)	1,854,905	1,013,425

(c) ***Inventory***

Inventories, which consist of bookstore and other supplies, are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

(d) ***Annuities and Perpetual Trusts***

The University's split-interest agreements with donors consist of irrevocable charitable remainder trusts, charitable gift annuities, and life income contracts for which the University is either the remainder beneficiary or both the trustee and remainder beneficiary.

Assets held in trust for which the University serves as trustee are included in investments. The fair value of these investments was \$7,850,790 at June 30, 2013 and \$7,414,282 at June 30, 2012. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities as annuity obligations. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Significant assumptions used in the calculation of the liability include:

- Assumed mortality rates based upon the 1983 Group Annuity Mortality Table and Annuity 2000 Table
- Assumed valuation interest rates of 4.0%, 4.5% and 5.0%
- Assumed annuity payments made annually at the beginning of the year.

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Assets held in trust for which the University does not serve as trustee (i.e., perpetual trusts) are included as investments in the consolidated financial statements. The investment balances of \$10,314,706 and \$9,836,267 at June 30, 2013 and 2012, respectively, are recorded at fair value. Changes in the value of the University's beneficial interest in these perpetual trusts are reflected within the statement of activities and changes in net assets as a component of permanently restricted unrealized gains.

(e) Government Advances for Student Loans

The University receives government advances to fund student loans. These advances are recorded as a liability within the statements of financial position. Interest earned through loan repayments is reinvested into the program to fund additional loans.

(f) Deferred Revenue

Revenue and expenses related to academic terms conducted over two fiscal years, such as the summer session, are recognized in the fiscal year in which the program is conducted. Amounts prepaid for future academic terms are included in deferred revenue and student deposits within the statements of financial position.

(g) Plant and Equipment

Plant and equipment are stated at cost. Amounts capitalized are depreciated over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Building additions and renovations	25 years
Computers, telephones, copiers, and vehicles	5 years
Other equipment and furniture	10 years

(h) Impairment of Long-Lived Assets

The University evaluates the recoverability of long-lived assets and the related estimated remaining lives at each fiscal year end. The University records an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the useful life should be modified. No such impairment was recorded in the fiscal years ended June 30, 2013 and 2012.

(i) Asset Retirement Obligations

The University has recorded a liability for conditional asset retirement obligations in other liabilities on the statements of financial position of approximately \$907,000 and \$856,000 at June 30, 2013 and 2012, respectively. Related discount amortization and depreciation in the fiscal years ended June 30, 2013 and 2012 were approximately \$55,000 and \$52,000, respectively.

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(j) *Income Taxes*

The University has received a determination letter from the Internal Revenue Service indicating it is a tax-exempt organization as provided for in Section 501(c)(3) of the Internal Revenue Code, except for taxes pertaining to unrelated business income, and is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements because, in management's opinion, the University does not have a significant amount of unrelated business income.

The University has adopted ASC 740, *Accounting for Uncertainty of Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. ASC 740 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC 740, tax provisions are evaluated for recognition, derecognition, and measurement using consistent criteria and they will provide more information about the uncertainty in income tax assets and liabilities. Based on the University's evaluation, no provision for uncertain tax positions is required as of June 30, 2013 and 2012.

(k) *Cash and Cash Equivalents and Short-Term Investments*

Cash equivalents consist of short-term highly liquid instruments purchased with an original maturity date of three months or less, except for cash and cash equivalents of endowments and similar funds, which are treated as long-term investment assets.

Short-term investments are reported at fair value and represent the University's operating cash that has been invested in a short-term investment fund, which has underlying investments that are not considered cash equivalents and are reported at fair value based on quoted market prices.

(l) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the disclosure of contingent assets and liabilities and the reported amounts of revenue, expenses, gains, and losses during the reporting period. Actual results could differ from those estimates.

(m) *Auxiliary Enterprises*

The University recognizes revenue and expenses related to residence and dining halls, as well as bookstore operations, as auxiliary enterprises on the statement of activities and changes in net assets.

(3) *Long-Term Debt*

On November 29, 2012, Baldwin Wallace University issued State of Ohio Higher Educational Facility Revenue Bonds with a par value of \$16,025,000. Prepaid expenses at June 30, 2013 include net issuance costs of \$187,848. The University is amortizing the issuance costs over the life of the bonds. The University issued the bonds pursuant to a trust agreement between the Ohio Higher Educational Facility Commission and US Bank as trustee. The bonds are dated December 1, 2012, and they mature through

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2042. Interest is payable beginning June 1, 2013, and semi-annually on each December 1 and June 1, at annual rates ranging from 0.6% to 4.0%.

The University is using the proceeds from the bonds to pay the capital costs of certain major building renovations, and to repay State of Ohio Higher Educational Facility Revenue Bonds issued June 1, 2004 (2004 bonds). The principal amount of 2004 bonds repayed was \$10,120,000. That amount is deemed to be paid, discharged, and no longer outstanding. The remaining balance of the 2004 bonds, \$1,005,000, is due December 1, 2013.

The combined annual principal payments required on both bond issues for 2013 and thereafter are as follows:

Fiscal year ending June 30:	
2014	\$ 1,100,000
2015	915,000
2016	930,000
2017	955,000
2018	980,000
Thereafter	<u>12,150,000</u>
	\$ <u><u>17,030,000</u></u>

At June 30, 2012, long term debt consisted solely of the 2004 bonds. The outstanding debt balances had estimated fair values of \$16,636,000 and \$12,702,000 at June 30, 2013 and 2012. The fair value of the outstanding debt was determined based on observable rates currently available for debt instruments with similar maturities, which are considered Level 2 inputs (see note 5).

The bond agreements contain certain covenants, including a fees covenant. The University covenants that it will establish and collect charges for its services in each fiscal year such that the gross cash receipts are sufficient to pay all expenses, all obligations imposed by the bond agreements, and all other indebtedness and obligations due in such fiscal year. The University is in compliance with its covenants as of June 30, 2013.

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(4) Investments

Endowment and similar investments include endowment funds, funds functioning as endowment, charitable gift annuities, charitable remainder trusts, and beneficial interests in outside trusts. At June 30, 2013 and 2012, investments and cash and cash equivalents comprised the following:

	2013	2012
Cash equivalents	\$ 3,568,089	1,672,617
Commonfund:		
Equity funds:		
Emerging Markets Investors	10,635,433	10,089,955
Equity Index	1,067,747	1,153,118
Other Equities	50,031,215	42,056,197
Fixed income funds:		
High Quality Bond	18,207,639	19,698,838
CFI Real Return Bond	2,079,604	2,234,821
Alternative funds, marketable	11,706,593	10,740,819
Alternative funds, nonmarketable	2,635,913	2,106,473
Common stocks	6,399,453	6,619,323
Preferred stocks	958,668	1,035,906
Equity and balanced mutual funds	5,801,572	5,030,156
Fixed income	381,770	862,587
Beneficial interest in perpetual trusts	10,314,706	9,836,267
Limited partnerships and other	988,573	752,380
	\$ 124,776,975	113,889,457

As of June 30, 2013 and 2012, the total net gain (loss) for the year comprises of the following:

	2013	2012
Unrealized net gain/(loss)	\$ 12,068,236	(7,856,088)
Realized net gain/(loss)	(2,169,016)	647,347
Total net gain/(loss) for the year	\$ 9,899,220	(7,208,741)

Interest income earned on operating cash equivalents and included in other unrestricted revenue was approximately \$22,000 and \$37,000 for the years ended June 30, 2013 and 2012, respectively. Investment income on endowments is recorded within the statements of activities and changes in net assets in the respective net asset category based on donor stipulations. Amounts reported for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Unrestricted net assets	\$ 1,257,273	1,544,733
Temporarily restricted net assets	3,855,027	3,318,962
Permanently restricted net assets	109,828	110,241

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(5) Fair Value Measurements

The University has adopted the recognition and disclosure provisions prescribed in ASC 820, *Fair Value Measurement and Disclosures*, for financial assets. ASC 820 establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. Although it does not require any new fair value measurements, ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset.

ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets carried at fair value be disclosed according to the following three levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets. Level 1 yields the highest priority to unadjusted quoted prices in active markets for identical assets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Observable inputs other than quoted prices in Level 1. Inputs such as quoted prices for similar assets in active markets, quoted prices for identical or similar liabilities that are not active, or other inputs that are observable or can be corroborated by observable market data. Level 2 financial instruments include student accounts receivable, pledges receivable, student loan notes receivable and annuity obligations.

Level 3 – Unobservable inputs that are significant to the valuation of assets and are supported by little or no market data. This includes discounted cash flow methodologies, pricing models, and similar techniques that use significant unobservable inputs. Level 3 financial instruments include asset retirement obligations.

The University has categorized the investments by valuation technique. There have been no changes to the valuation techniques in the methods used at June 30, 2013 and 2012. Level 1 investments include cash equivalents, short term investments and equity securities. These valuations are based on quoted prices from active stock exchanges for identical assets. Level 2 investments include fixed income securities, limited partnerships and other miscellaneous securities. The valuation of these securities are based on quoted prices from active stock exchanges for similar assets, quoted prices in inactive markets, or other observable market data such as matrix pricing and yield curves.

Commonfund management quotes net asset values for each of its funds at the end of each month based on the quoted market price of the fund's underlying securities. The net asset value has been applied as a practical expedient for estimating fair value as the investment can be redeemed at the net asset value. Commonfund investments, excluding nonmarketable alternative investments, are classified as Level 2 as the University has the ability to redeem at net asset value on or near the measurement date. The net asset value is also applied as a practical expedient for the valuation of the University's beneficial interest in perpetual trusts. However, the beneficial interest in perpetual trusts is classified as Level 3 as the investments cannot be redeemed at net asset value.

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The investments that are valued at their net asset value at June 30, 2013 include the following:

	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
SSG Diversifying Company	\$ 2,835,930	Quarterly	95 days
SSG Relative Value & Event Driven Company	3,874,750	Annually	95 days
SSG Global Hedged Equity Company	4,995,913	Quarterly	95 days
Global Distressed Investors LLC4	2,193,805	Quarterly	60 days
Emerging Market Investors Co. B	10,635,433	Monthly	5 days
Equity Index Fund	1,067,747	Monthly	5 days
Other Equities	50,031,215	Monthly	5 days
High Quality Bond Fund	18,207,639	Monthly	5 days
CFI Real Return Bond Fund	2,079,604	Monthly	5 days
Beneficial interest in perpetual trusts	10,314,706	N/A	N/A

The University holds interests in other various funds that are illiquid and do not allow for short-term redemption. The fair value for those funds is \$442,108. These funds utilize a multi-manager approach, allocating assets to investment Sub-Advisors or investment funds managed by Sub-Advisors (Third Party Investment Funds). The strategies employed by the funds are primarily long-term or full market cycle approaches.

The beneficial interest in perpetual trusts represent the University's interest in trusts held by outside parties. These trusts are primarily invested in marketable equity and debt securities.

The University has various alternative investments that have minimum capital commitments. The University has committed to make a total investment of \$4,600,000, of which \$2,279,850 has been invested, leaving \$2,320,150 of outstanding commitments as of June 30, 2013.

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The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,157,494	—	—	8,157,494
Short-term investments	5,250,812	—	—	5,250,812
Cash equivalents, endowment	3,568,089	—	—	3,568,089
Commonfund:				
Emerging Market Investors Fund	—	10,635,433	—	10,635,433
Equity Index Fund	—	1,067,747	—	1,067,747
Other Equities	—	50,031,215	—	50,031,215
High Quality Bond Fund	—	18,207,639	—	18,207,639
CFI Real Return Bond Fund	—	2,079,604	—	2,079,604
Alternative funds, marketable	—	11,706,593	—	11,706,593
Alternative funds, nonmarketable	—	—	2,635,913	2,635,913
Common stocks	6,399,453	—	—	6,399,453
Preferred stocks	958,668	—	—	958,668
Equity and balanced mutual funds	5,801,572	—	—	5,801,572
Fixed income	—	381,770	—	381,770
Beneficial interest in perpetual trusts	—	—	10,314,706	10,314,706
Limited partnerships and other	—	988,573	—	988,573
	<u>\$ 30,136,088</u>	<u>95,098,574</u>	<u>12,950,619</u>	<u>138,185,281</u>

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,980,985	—	—	3,980,985
Short-term investments	10,237,041	—	—	10,237,041
Cash equivalents, endowment	1,672,617	—	—	1,672,617
Commonfund:				
Emerging Market Investors Fund	—	10,089,955	—	10,089,955
Equity Index Fund	—	1,153,118	—	1,153,118
Other Equities	—	42,056,197	—	42,056,197
High Quality Bond Fund	—	19,698,838	—	19,698,838
CFI Real Return Bond Fund	—	2,234,821	—	2,234,821
Alternative funds, marketable	—	10,740,819	—	10,740,819
Alternative funds, nonmarketable	—	—	2,106,473	2,106,473
Common stocks	6,619,323	—	—	6,619,323
Preferred stocks	1,035,906	—	—	1,035,906
Equity and balanced mutual funds	5,030,156	—	—	5,030,156
Fixed income	—	862,587	—	862,587
Beneficial interest in perpetual trusts	—	—	9,836,267	9,836,267
Limited partnerships and other	—	752,380	—	752,380
	<u>\$ 28,576,028</u>	<u>87,588,715</u>	<u>11,942,740</u>	<u>128,107,483</u>

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The University's policy is to reflect transfers between levels at the end of the year in which a change in circumstances results in a transfer. There were no transfers between Level 1 and Level 2 investments for the fiscal years ended June 30, 2013 and 2012. The following table presents activity for assets classified as Level 3:

Fair value measurements using unobservable inputs (Level 3)			
	Beneficial interest in perpetual trusts	Common fund alternative funds nonmarketable	Totals
Balance at June 30, 2011	\$ 11,515,708	1,133,954	12,649,662
Additions	—	933,750	933,750
Investment income	354,410	—	354,410
Payments	(354,410)	—	(354,410)
Realized and unrealized gains/(losses)	(1,679,441)	38,769	(1,640,672)
Balance at June 30, 2012	9,836,267	2,106,473	11,942,740
Additions	—	305,250	305,250
Investment income	527,797	—	527,797
Payments	(527,797)	—	(527,797)
Realized and unrealized gains/(losses)	478,439	224,190	702,629
Balance at June 30, 2013	\$ 10,314,706	2,635,913	12,950,619

(6) Endowment

The University's endowment consists of approximately 450 individual funds. The donors of these funds have restricted the principal for investment. Some of those donors have also restricted the use of the income as to purpose. The University classifies these funds, sometimes referred to as true endowment, as permanently restricted net assets. The University's Board of Trustees has designated other funds, usually resulting from major bequests or gifts, as funds functioning as endowment. The University classifies these funds as temporarily restricted net assets if the donor restricted the gift as to purpose, or as unrestricted net assets.

As a matter of fundraising practice, the University executes a signed agreement with all true endowment donors. These agreements specify, among other things, that the funds are governed by Baldwin Wallace University endowment policy, and that gains in excess of those required by the spending policy are added to principal, increasing the permanently restricted fund balance by such gains.

The University's spending policy is to withdraw each year an amount not exceeding 5.5% of the average of the June 30 market values for the preceding three years. These withdrawals include all ordinary investment income and the amount of accumulated gains required. The statements of activities and changes in net assets for each of the three net asset classes show these withdrawals as endowment investment income.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or legislation requires the University to maintain as a fund of perpetual duration. In

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accordance with generally accepted accounting principles, deficiencies of this nature would be reported in unrestricted net assets. There were no such deficiencies as of June 30, 2013 and 2012.

The following tables present the endowment net asset composition by fund type as of June 30, 2013 and 2012:

June 30, 2013				
	Permanently restricted	Temporarily restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 98,683,731	—	—	98,683,731
Board designated funds	—	7,278,970	4,219,958	11,498,928
	\$ 98,683,731	7,278,970	4,219,958	110,182,659

June 30, 2012				
	Permanently restricted	Temporarily restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 89,588,735	—	—	89,588,735
Board designated funds	—	5,785,553	3,928,869	9,714,422
	\$ 89,588,735	5,785,553	3,928,869	99,303,157

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The following table presents the changes in endowment net assets held by the University for the years ended June 30, 2013 and 2012:

	Permanently restricted	Temporarily restricted	Unrestricted	Total
Balances June 30, 2011	\$ 92,794,293	6,806,107	4,149,266	103,749,666
Ordinary investment income	1,560,017	265,963	64,717	1,890,697
Investment gains/(losses)	(2,489,502)	25,327	(96,556)	(2,560,731)
Gifts and gift pledges	1,909,886	—	—	1,909,886
Transfers and other	70,257	(5,000)	—	65,257
Distributions for expenditure	(4,256,216)	(386,844)	(188,558)	(4,831,618)
Withdrawal for debt payment	—	(920,000)	—	(920,000)
Balances June 30, 2012	89,588,735	5,785,553	3,928,869	99,303,157
Ordinary investment income	1,777,793	317,314	74,308	2,169,415
Investment gains/(losses)	9,302,253	1,959,374	413,477	11,675,104
Gifts and gift pledges	2,454,733	—	—	2,454,733
Transfers and other	30,223	480,000	—	510,223
Distributions for expenditure	(4,470,006)	(303,271)	(196,696)	(4,969,973)
Withdrawal for debt payment	—	(960,000)	—	(960,000)
Balances June 30, 2013	\$ <u>98,683,731</u>	<u>7,278,970</u>	<u>4,219,958</u>	<u>110,182,659</u>

Members of the Baldwin Wallace University Investment Committee develop investment policy, which is subject to approval by the Board of Trustees. They design the policy to be flexible and subject to revisions as the needs of the University may change. While the endowment is under the responsibility of the Board of Trustees, the Board has delegated authority for investment activities – including appointment, oversight, and evaluation of the Investment Manager – to the Investment Committee, whose members are appointed and serve at the pleasure of the Chairperson of the Board of Trustees. The members of the Investment Committee are all Trustees who volunteer their services on a pro bono basis.

The University's objective is to invest the endowment to seek an average total annual return that exceeds the spending rate plus inflation. The intent is to preserve over time the principal value of the assets as measured in inflation-adjusted terms. The relative objective is to seek competitive investment performance versus appropriate capital market measures. The comparative performance objective is to achieve a total rate of return that is above the median performance of a universe of similarly managed funds.

The endowment has an indefinite time horizon that runs concurrent with the endurance of the University, in perpetuity. As such, the endowment can assume a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of risk as measured by the standard deviation of annual returns. However, it is expected that both professional management and portfolio diversification will smooth volatility and help ensure a reasonable consistency of return.

The assets are managed on a total return basis.

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The University believes that its policies and procedures comply with the provisions of the Uniform Prudent Management of Institutional Funds Act.

(7) Retirement Plan

The University participates in the Teachers Insurance and Annuity Association retirement plan, which covers substantially all regular full-time employees. The retirement plan is funded by University contributions ranging from 7% to 10% of the covered employees' regular salary and by required employee contributions ranging from 3% to 5% of regular salary. During the years ended June 30, 2013 and 2012, the University's contributions were approximately \$1,976,000 and \$1,991,000, respectively.

(8) Commitments and Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to their allowability in connection with the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. University management believes disallowances, if any, will not be material to the University's consolidated financial statements.

(9) Gift Pledges

Gift pledges totaling \$6,680,026 and \$8,051,790 at June 30, 2013 and 2012, respectively, represent gross unconditional promises to give. All gift pledges are restricted as to use for various purposes, primarily for plant or endowment. These promises are reported at the present value of estimated future cash flows.

Pledges received were discounted at a rate of 3%. Discounts of \$416,801 and \$334,485 were recorded at June 30, 2013 and 2012, respectively.

Gift pledges are expected to be realized as follows:

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 2,795,712	4,911,122
Between one and five years	3,384,314	3,140,668
More than five years	500,000	—
	<u>6,680,026</u>	<u>8,051,790</u>
Less:		
Allowance for uncollectible pledges	(251,000)	(286,000)
Discount on pledges	(416,801)	(334,485)
	<u>(667,801)</u>	<u>(620,485)</u>
Net pledges receivable	<u>\$ 6,012,225</u>	<u>7,431,305</u>

Conditional promises to give totaled approximately \$17,460,000 as of June 30, 2013. This amount consists of commitments contained in wills and insurance policies. The amount at June 30, 2012, was \$17,417,000. Conditional promises to give are not recorded in the consolidated financial statements.

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(10) Line of Credit and Short-Term Financing

The University has a \$5,000,000 line of credit for operating funds that bears interest at LIBOR plus 250 basis points. No borrowings were outstanding as of June 30, 2013 and 2012.

The University has a bank multiple draw term loan of up to \$7,000,000 to provide interim financing if needed for its South Campus Historic District construction projects. The term loan bears interest at LIBOR plus 150 basis points for the first 24 months and LIBOR plus 175 basis points for the next 60 months. There were no amounts drawn as of June 30, 2013 and 2012.

(11) Historic Tax Credits and Limited Liability Companies

During the year ended June 30, 2010, the University created a historic district containing ten campus buildings, the Baldwin Wallace University South Campus Historic District. The Ohio Historic Preservation Office and the National Park Service approved this district, which was placed on the National Register of Historic Places on June 7, 2010. Within this district, the University can develop renovation projects that qualify for federal and state historic renovation tax credits. To obtain benefit from such credits, the University forms for-profit limited liability companies with corporate investors. It has formed two joint ventures to date, KCM I and KBS.

KCM I renovated two adjacent buildings and constructed a third building to link the two, for the use of the Conservatory of Music. The work occurred during the years ended June 30, 2011 and 2012. Investor's payment for tax credits was included in temporarily restricted other income in the year ended June 30, 2012.

KBS is renovating and expanding three residence halls, Klein, 63 Beech, and Saylor. This work was in progress at June 30, 2013. The University expected to complete and open Klein and 63 Beech for the fall semester of 2013, and Saylor for the spring semester of 2014. The investor payment is expected to be received in the 2014 fiscal year.

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(12) Subsequent Events

Subsequent to June 30, 2013, KBS admitted a for-profit corporate investor. The investor will remain a member of KBS for five years.

The University evaluated subsequent events applicable to the year ended June 30, 2013 through October 10, 2013 the date the consolidated financial statements are available to be issued. No reportable events, other than those described, have occurred.

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2013, 2012, 2011, and 2010

(Certain unaudited information)

(In millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets and liabilities (in millions):				
Operating cash and short-term investments	\$ 13.4	14.2	17.6	21.5
Student and other receivables, net	4.2	4.0	3.4	3.5
Gift pledges receivable, net	6.0	7.4	5.1	5.5
Student loan notes (primarily Perkins) receivable, net	3.7	3.9	4.2	4.4
Inventories and prepaid expenses	2.8	2.5	2.0	2.4
Endowment fair value	124.8	113.9	119.7	103.9
Physical plant (historical cost)	223.3	203.3	190.2	172.9
Accumulated depreciation	(87.4)	(81.8)	(76.6)	(71.7)
Total assets	<u>290.8</u>	<u>267.4</u>	<u>265.6</u>	<u>242.4</u>
Accounts payable and accruals	4.8	4.8	5.2	5.5
Deferred revenue and student deposits	4.8	3.6	3.7	2.9
Other liabilities	7.9	7.5	7.6	7.7
Long-term debt	17.0	12.1	13.0	13.9
Total liabilities	<u>34.5</u>	<u>28.0</u>	<u>29.5</u>	<u>30.0</u>
Net assets (in millions):				
Unrestricted:				
Expendable funds	4.5	4.3	6.2	10.6
Functioning as endowment	4.2	3.9	4.1	3.6
Plant and equipment	50.9	49.4	45.1	36.8
Total	<u>59.6</u>	<u>57.6</u>	<u>55.4</u>	<u>51.0</u>
Temporarily restricted by donors, expendable for specific purposes or at specific times	89.1	83.7	77.9	73.3
Permanently restricted by donors for endowment investment or student loans	107.6	98.1	102.8	88.1
Total net assets	<u>\$ 256.3</u>	<u>239.4</u>	<u>236.1</u>	<u>212.4</u>
Enrollment, fall term (unaudited):				
Full-time undergraduate	2,981	2,963	3,119	3,180
Part-time undergraduate	474	498	509	504
Graduate	718	716	724	713
Total	<u>4,173</u>	<u>4,177</u>	<u>4,352</u>	<u>4,397</u>
Full-time equivalent	3,719	3,700	3,834	3,882
Residence hall occupancy, fall term (unaudited)	1,811	1,785	1,855	1,911
New day students, fall term (unaudited):				
Applied	4,145	4,321	4,073	4,036
Admitted	2,576	2,629	2,531	2,604
Enrolled	881	824	873	908

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2013, 2012, 2011, and 2010

(Certain unaudited information)

(In millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Activities summary:				
Tuition and fees	\$ 94.0	92.5	91.6	89.5
Less student financial aid grants	37.4	36.3	34.9	32.9
Net tuition and fees	56.6	56.2	56.7	56.6
Private gifts, grants, and pledges	13.3	10.7	9.4	19.8
Endowment and similar investment income	5.1	5.0	5.6	6.2
Government grants	1.6	2.1	1.8	1.5
Auxiliary enterprise revenue	18.6	18.4	18.4	18.0
Sale of historic renovation tax credits	—	4.9	0.1	—
Other income	1.3	1.6	1.6	3.1
Totals	96.5	98.9	93.6	105.2
Expenses	89.6	88.4	86.3	84.6
Net before investment gains or losses	6.9	10.5	7.3	20.6
Endowment and similar investment gains (losses)	9.9	(7.2)	16.4	8.2
Increase (decrease) in net assets	\$ 16.8	3.3	23.7	28.8
Gift purposes:				
Endowment and similar	\$ 2.5	2.1	0.6	0.6
Restricted or allocated for plant	6.4	2.9	3.4	14.9
Annual fund	1.4	1.5	1.6	1.5
Other current use or loan	3.0	4.2	3.8	2.8
Totals	\$ 13.3	10.7	9.4	19.8
Distributions of investment income:				
Unrestricted	\$ 1.3	1.5	1.3	1.5
Restricted for program or financial aid	3.6	3.3	3.6	3.9
Endowment (reinvested per donors' instructions)	0.1	0.1	0.5	0.6
Plant	0.1	0.1	0.2	0.2
	\$ 5.1	5.0	5.6	6.2

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2013, 2012, 2011, and 2010

(Certain unaudited information)

(In millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fees charged per full-time student (unaudited):				
Tuition	\$ 27,060	26,396	25,260	24,230
Residence hall room (double)	4,340	4,240	4,056	3,888
Campus card (food, bookstore)	4,540	4,440	4,244	4,072
	<u>\$ 35,940</u>	<u>35,076</u>	<u>33,560</u>	<u>32,190</u>
Student financial aid grants (in millions):				
Unrestricted funds	\$ 32.6	31.6	30.8	29.4
Restricted gifts, grants, and endowment earnings	4.8	4.7	4.1	3.5
Total university aid	<u>37.4</u>	<u>36.3</u>	<u>34.9</u>	<u>32.9</u>
Government grants to students administered by the University:				
Pell and other federal	5.0	4.8	5.7	4.8
Ohio Opportunity and other state	2.2	1.8	1.6	1.8
Total government administered	<u>7.2</u>	<u>6.6</u>	<u>7.3</u>	<u>6.6</u>
Total grant aid	<u>\$ 44.6</u>	<u>42.9</u>	<u>42.2</u>	<u>39.5</u>
Student financial aid grants as a percentage of tuition revenue from full-time students (unaudited):				
Unrestricted	42%	41%	41%	40%
Restricted gifts, grants, and endowment earnings	6	6	5	5
Total university aid	<u>48</u>	<u>47</u>	<u>46</u>	<u>45</u>
Administered	<u>9</u>	<u>9</u>	<u>10</u>	<u>9</u>
Total	<u>57%</u>	<u>56%</u>	<u>56%</u>	<u>54%</u>
Dollar amounts per full-time equivalent enrollment (unaudited):				
Academic and student services	\$ 13,500	13,200	12,400	12,100
Educational plant and general support	7,000	7,100	6,600	6,200
Gift support	3,600	2,900	2,500	5,100
Endowment market value	33,600	30,800	31,200	26,800

See accompanying independent auditors' report.