



BALDWIN WALLACE UNIVERSITY

Consolidated Financial Statements and Supplementary Information

June 30, 2017 and 2016

(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 University 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 Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Music, Bachelor of Music Education, and Accelerated Bachelor of Science in Nursing.

Baldwin Wallace offers graduate programs leading to the degrees of Master of Arts in Education, Master of Arts in Management, Master of Business Administration, Master of Medical Science (Physician Assistant), Master of Public Health, and Master of Science (Speech Language Pathology). BW also has certificate programs in a variety of specialties.

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

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

The 2016-2017 academic year opened with a total fall semester enrollment of 3,961. This total included 3,058 full-time undergraduate students, 257 part-time undergraduates, and 646 graduate students. The full-time-equivalent enrollment was 3,588, up 13 students from the previous fall.

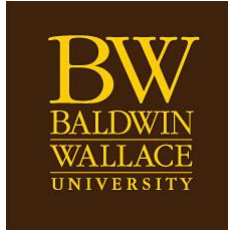
Total spending for programs and support was \$101,827,463, up 3% from the previous year. BW continued its long practice of operating with balanced budgets. The operating margin was \$1,036,867.

Total net assets increased \$9,861,073, to \$295,415,386. The sources of revenue were tuition net of financial aid of \$62.8 million, auxiliary enterprise fees and sales of \$20.3 million, gifts and grants of \$11.0 million, endowment and similar investments income of \$6.5 million, other sources of \$1.6 million, and investment gains net of loss on sale of donated real estate of \$9.5 million.

Net assets include unrestricted funds available for any purpose, funds temporarily restricted by donors for specific purposes or time periods, and funds permanently restricted by donors for investment in the endowment or revolving student loan funds. Unrestricted net assets increased \$1.7 million, temporarily restricted decreased \$6.8 million, and permanently restricted, including most of the investment gains, increased \$15.0 million.

The market value of endowment and similar investments and cash equivalents at June 30, 2017 was \$164,541,026, up approximately \$15.5 million from June 30, 2016. The increase included the investment gains and new gifts. They include donor restricted endowments (\$133 million), funds functioning as endowment, gift annuities, remainder trusts, and beneficial interests in outside trusts.

Plant spending totaled approximately \$7.8 million. This included renovations and improvements to existing buildings and purchases of equipment and furnishings. It also included plans for a new residence hall, to be constructed during the 2017-18 fiscal year.



Report of the Administration

This report covers the consolidated 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 consolidated 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 consolidated 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'.

William M. Reniff
Vice President for Finance and Administration



KPMG LLP
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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, 2017 and 2016, 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 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 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 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 opinion.

Opinion

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, 2017 and 2016, 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 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, 2017 and 2016 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 relates 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 2017 and 2016 consolidated 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 2017 and 2016 consolidated 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, 2015 and 2014, 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. The supplementary information included in Schedule I for the years ended June 30, 2015 and 2014 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 relates directly to the underlying accounting and other records used to prepare the respective consolidated financial statements. The supplementary information included in Schedule I related to the University's 2015 and 2014 consolidated financial statements, except for that portion marked "unaudited," on which we express no opinion, has been subjected to auditing procedures applied in the audits the University's 2015 and 2014 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 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 2015 and 2014 consolidated 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 University's 2015 and 2014 consolidated financial statements as a whole.

Other Information

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 November 8, 2017 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 solely 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 the effectiveness of the University's 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
November 9, 2017

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2017 and 2016

Assets	2017	2016
Operating assets:		
Cash and cash equivalents	\$ 5,171,211	4,789,547
Short-term investments	4,338,962	7,315,931
Student accounts receivable, less allowance for doubtful receivables of \$91,000 and \$109,000 as of June 30, 2017 and 2016, respectively	3,455,418	3,603,331
Receivables from the federal and state governments	1,094,600	28,465
Other receivables, less allowance for doubtful receivables of \$34,000 as of both June 30, 2017 and 2016	261,853	258,686
Inventory	1,963,919	2,201,238
Prepaid expenses	1,246,062	1,449,208
Pledges receivable, less allowance for doubtful pledges of \$131,000 and \$138,000 as of June 30, 2017 and 2016 respectively	2,829,729	3,042,530
Student loan notes receivable, less allowance for doubtful loans of \$602,000 as of both June 30, 2017 and 2016	4,022,228	3,909,879
Total operating assets	<u>24,383,982</u>	<u>26,598,815</u>
Endowment and similar assets:		
Cash equivalents	5,345,512	4,632,532
Investments, at fair value	159,195,514	144,366,563
Total endowment and similar assets	<u>164,541,026</u>	<u>148,999,095</u>
Plant and equipment:		
Grounds	15,031,109	13,760,797
Educational and general buildings	152,777,819	154,870,585
Residence halls	49,197,815	48,434,134
Residences	3,539,883	3,495,606
Furniture and equipment	28,067,918	26,887,119
Construction in progress	100,000	—
	248,714,544	247,448,241
Less accumulated depreciation	<u>(115,240,447)</u>	<u>(108,325,265)</u>
Net plant assets	<u>133,474,097</u>	<u>139,122,976</u>
Total assets	\$ <u><u>322,399,105</u></u>	\$ <u><u>314,720,886</u></u>

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2017 and 2016

Liabilities and Net Assets	2017	2016
Liabilities:		
Accounts payable	\$ 1,070,672	1,848,483
Accrued expenses	2,982,702	2,590,667
Deferred revenue and student deposits	2,317,521	3,484,644
Other liabilities	1,288,855	1,149,421
Annuity obligations	4,082,309	3,820,966
Government advances for student loans (Perkins loans)	2,111,660	2,187,392
Long-term debt	13,130,000	14,085,000
Total liabilities	<u>26,983,719</u>	<u>29,166,573</u>
Net assets:		
Unrestricted	65,604,655	63,932,654
Temporarily restricted:		
Program	18,888,754	19,866,513
Student financial aid	6,441,727	6,197,107
Plant and equipment	59,388,061	65,501,996
Total temporarily restricted	<u>84,718,542</u>	<u>91,565,616</u>
Permanently restricted:		
Program	74,283,677	68,185,875
Student financial aid	64,506,230	56,021,204
Plant and equipment	6,302,282	5,848,964
Total permanently restricted	<u>145,092,189</u>	<u>130,056,043</u>
Total net assets	<u>295,415,386</u>	<u>285,554,313</u>
Total liabilities and net assets	<u>\$ 322,399,105</u>	<u>314,720,886</u>

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Activities
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets:		
Revenue:		
Tuition and fees	\$ 107,569,222	104,262,387
Less student financial aid grants	<u>(44,807,769)</u>	<u>(42,698,863)</u>
Net tuition and fees	62,761,453	61,563,524
Private gifts and grants	1,334,571	1,197,160
Endowment and similar investment income	1,368,180	1,321,097
Auxiliary enterprises	20,290,064	20,455,073
Other	<u>755,372</u>	<u>1,013,310</u>
Total revenue	<u>86,509,640</u>	<u>85,550,164</u>
Net assets released from restrictions:		
Program	6,306,391	6,110,216
Student financial aid grants	5,204,473	4,785,273
Plant and equipment	<u>5,273,056</u>	<u>3,895,401</u>
Total net assets released from restrictions	<u>16,783,920</u>	<u>14,790,890</u>
Total revenue and net assets released from restrictions	<u>103,293,560</u>	<u>100,341,054</u>
Expenses:		
Instruction	46,163,257	43,328,415
Academic support	7,326,662	7,424,209
Libraries	2,016,538	1,951,994
Student services	9,474,398	9,081,006
Organized student activities	7,906,820	7,882,325
Institutional support	14,532,833	14,612,609
Auxiliary enterprises	<u>14,406,955</u>	<u>14,224,743</u>
Total expenses	101,827,463	98,505,301
Endowment and similar investment gains (losses), net	<u>205,904</u>	<u>(411,330)</u>
Change in unrestricted net assets	<u>1,672,001</u>	<u>1,424,423</u>

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Activities
Years ended June 30, 2017 and 2016

	2017	2016
Changes in temporarily restricted net assets:		
Revenue:		
Private gifts, grants, and pledges	\$ 3,554,293	5,136,744
Endowment and similar investment income	4,973,276	4,695,240
Government grants	1,582,576	1,560,856
Other	309,524	394,258
Total revenue	10,419,669	11,787,098
Net assets released from restrictions:		
Program	(6,306,391)	(6,110,216)
Student financial aid grants	(5,204,473)	(4,785,273)
Plant and equipment	(5,273,056)	(3,895,401)
Total net assets released from restrictions	(16,783,920)	(14,790,890)
Endowment and similar investment gains (losses), net	2,468,903	(1,112,030)
Loss on sale of donated real estate	(2,951,726)	—
Change in temporarily restricted net assets	(6,847,074)	(4,115,822)
Changes in permanently restricted net assets:		
Revenue:		
Private gifts, grants, and pledges	4,572,145	1,482,197
Endowment and similar investment income	155,096	129,927
Other	516,200	55,677
Total revenue	5,243,441	1,667,801
Endowment and similar investment gains (losses), net	9,792,705	(8,881,586)
Change in permanently restricted net assets	15,036,146	(7,213,785)
Change in net assets	9,861,073	(9,905,184)
Net assets at beginning of year	285,554,313	295,459,497
Net assets at end of year	\$ 295,415,386	285,554,313

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease)in net assets	\$ 9,861,073	(9,905,184)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	9,269,107	8,978,298
Net losses (gains) on endowment and similar investments	(12,467,512)	10,404,946
Change in student accounts and other receivables	(947,714)	232,377
Change in inventory and prepaid expenses	440,465	(772,026)
Change in accounts payable and accrued expenses	(116,792)	(77,606)
Change in deferred revenue, annuity obligations, government advances, and other liabilities	(842,078)	884,961
Contribution of beneficial interest in outside trust	(1,968,598)	—
Contributions of equipment	(18,000)	—
Loss on sale of donated building	3,062,312	—
Contributions restricted for long-term investment	(3,187,751)	(2,521,300)
Other income restricted for long-term investment	(1,606,047)	(2,672,392)
Net cash provided by operating activities	1,478,465	4,552,074
Cash flows from investing activities:		
Purchases of plant and equipment	(7,824,052)	(9,160,305)
Sale of donated real estate	890,528	—
Purchases of endowment and similar investments	(93,967,583)	(15,324,077)
Sales of endowment and similar investments	93,574,742	13,552,988
Change in short-term investments	2,976,969	2,970,264
Change in endowment and similar cash equivalents	(712,980)	(1,904,548)
Change in student loans	(112,349)	(93,248)
Net cash used in investing activities	(5,174,725)	(9,958,926)
Cash flows from financing activities:		
Contributions restricted for long-term investment	3,426,877	3,152,692
Other income restricted for long-term investment	1,606,047	2,672,392
Principal payments on bonds	(955,000)	(930,000)
Net cash provided by financing activities	4,077,924	4,895,084
Change in cash and cash equivalents	381,664	(511,768)
Cash and cash equivalents at beginning of year	4,789,547	5,301,315
Cash and cash equivalents at end of year	\$ 5,171,211	4,789,547
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 488,537	512,163
Construction in progress in accounts payable	482,562	769,546

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(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 Fine 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 Arts in Management, Master of Business Administration, Master of Medical Science, Master of Public Health, and Master of Science. The University also has certificate programs in a variety of specialties.

As explained in note 11, in previous years the University formed two for-profit limited liability entities, KCM 1 and KBS. The parties terminated KCM I during the year ended June 30, 2017. The consolidated financial statements of Baldwin Wallace University include the accounts of KCM 1 and KBS for the year ended June 30, 2016 and KBS for the year ended June 30, 2017. The accounting and reporting policies of the University conform to U.S. generally accepted accounting principles. 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 a 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 assets are considered to be released over the estimated useful lives of the assets using the University's depreciation methods.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 or permanently restricted net asset classes. 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, 2017 and 2016

The table below provides certain information regarding the cumulative amount of unrealized holding losses for marketable equity securities and debt and other securities managed by the University and held as of June 30, 2017 and 2016:

	2017		
	Equity securities	Debt and other securities	Total
Unrealized losses less than one year:			
Amount of unrealized losses	\$ (486)	—	(486)
Fair value of related securities held in a loss position	13,675	—	13,675
Number of related security positions	2	—	2
Unrealized losses greater than one year:			
Amount of unrealized losses	(211,640)	—	(211,640)
Fair value of related securities held in a loss position	430,099	—	430,099
Number of related security positions	12	—	12
Total unrealized losses	(212,126)	—	(212,126)
Unrealized market appreciation	22,221,369	1,104,753	23,326,122
Cumulative net unrealized	\$ 22,009,243	1,104,753	23,113,996
	2016		
	Equity securities	Debt and other securities	Total
Unrealized losses less than one year:			
Amount of unrealized losses	\$ (146,866)	—	(146,866)
Fair value of related securities held in a loss position	926,836	—	926,836
Number of related security positions	12	—	12
Unrealized losses greater than one year:			
Amount of unrealized losses	(4,720,668)	—	(4,720,668)
Fair value of related securities held in a loss position	26,507,032	—	26,507,032
Number of related security positions	18	—	18
Total unrealized losses	(4,867,534)	—	(4,867,534)
Unrealized market appreciation	20,847,769	2,126,674	22,974,443
Cumulative net unrealized	\$ 15,980,235	2,126,674	18,106,909

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

(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 on the consolidated statement of financial position. The fair value of these investments was \$9,796,387 at June 30, 2017 and \$8,857,961 at June 30, 2016. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included as annuity obligations on the consolidated statement of financial position. 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 amounts payable. Significant assumptions used in the calculation of the liability include:

- Assumed mortality rates based upon the 2012 Individual Annuity Reserving Mortality Table
- Assumed valuation interest rates range between 1.75% and 2.50%
- Assumed annuity payments made annually at the beginning of the year.

Assets held in trust for which the University does not serve as trustee (i.e., perpetual trusts) are also included as investments on the consolidated statement of financial position. The investment balances of \$14,086,126 and \$11,254,620 at June 30, 2017 and 2016, respectively, are recorded at fair value. Changes in the value of the University's beneficial interest in these perpetual trusts are reflected within the consolidated statement of activities and as a component of permanently restricted endowment and similar investment gains (losses).

(e) Government Advances for Student Loans

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

(f) Student Loans Receivable

Student loans receivable are reported net of reserves for doubtful loans of \$602,000 as of both June 30, 2017 and 2016. The reserve is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers still in school or in the grace period following graduation), that may not be collected.

(g) Deferred Revenue and Student Deposits

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 consolidated statements of financial position.

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

(h) Plant and Equipment

Plant and equipment are stated at historical 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
Pianos and other musical instruments	35 years

The University disposed of a donated building in March of 2017, which resulted in a loss on sale of \$2,950,000 for the year ended June 30, 2017.

(i) 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 or change in estimated useful life was recorded in the fiscal years ended June 30, 2017 and 2016.

(j) Asset Retirement Obligations

The University has recorded a liability for conditional asset retirement obligations in other liabilities on the consolidated statements of financial position of approximately \$797,000 and \$752,000 at June 30, 2017 and 2016, respectively. Related discount amortization and depreciation in the fiscal years ended June 30, 2017 and 2016 were approximately \$45,000 and \$42,000, respectively.

(k) 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 uses 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. Tax provisions are evaluated for recognition, derecognition, and measurement using consistent criteria 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, 2017 and 2016.

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(l) 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.

(m) 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.

(n) Auxiliary Enterprises

The University recognizes revenue and expenses related to residence and dining halls, bookstore, and rental houses as auxiliary enterprises on the consolidated statements of activities.

(o) Student Financial Aid Grants

Net tuition and fees are reported net of student financial aid grants. A student financial aid grant represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student.

(p) Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the University, including required disclosures about the liquidity and availability resources. The new standard is effective for fiscal years beginning after December 15, 2017 and should be applied retrospectively. The University is currently evaluating the impact of the standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02) which supersedes *Topic 840, Leases*. This new accounting standard is intended to increase transparency and comparability among organizations relating to leases and will require enhanced disclosures about our leasing arrangements. Under the new guidance, lessees will be required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as either operating or finance leases to determine recognition in the income statement and statements of cash flows; however, substantially all leases will be required to be recognized on the balance sheet. Operating leases will result in straight-line expense while finance leases will result in a front-loaded

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expense pattern. The ASU is effective for fiscal years beginning after December 15, 2019. The new standard requires a “modified retrospective” adoption, meaning the standard is applied to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The University is currently evaluating the impact of the standard.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date* (ASU 2015-14). ASU 2015-14 defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which was issued in May 2014, by one year for all entities. This new accounting standard provides a comprehensive revenue recognition model for all contracts with customers and supersedes current revenue recognition guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard also includes enhanced disclosures. In March, April and May 2016, the FASB issued additional ASUs clarifying certain aspects of ASU 2014-09. The core principle of ASU 2014-09 was not changed by the additional guidance. The ASU is effective for annual reporting periods beginning after December 15, 2018. The guidance permits the use of either a full retrospective or modified retrospective transition method. The University is currently evaluating the impact of the standard.

In May 2015, the FASB issued Accounting Standards Update 2015-07, an amendment to existing guidance under Accounting Standards Codification (ASU) 820, *Fair Value Measurements*, which removes the requirement to categorize investments for which the Net Asset Value (NAV) practical expedient is used to measure fair value within the hierarchy table. Instead, reporting entities will be required to disclose the fair value of the excluded investments so that users can reconcile between amounts reported in the fair value hierarchy table and the statement of activities. In addition, this ASU eliminates the requirement to provide certain disclosures for investments for which the University has elected to measure the fair value using the NAV practical expedient. The University adopted this guidance on July 1, 2016. As a result of adoption, \$2,819,318 and \$2,554,776 of investments as of June 30, 2017 and 2016, respectively, that are valued using net asset value as a practical expedient are not categorized in the fair value hierarchy table (note 5). This new guidance only amended disclosure requirements and did not have any impact on the consolidated financial statements.

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

The University used 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.

Prepaid expenses at June 30, 2017 include net issuance costs of \$124,103. The University is amortizing the issuance costs over the life of the bonds.

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The annual principal payments required on the bonds for 2017 and thereafter are as follows:

Fiscal year ending June 30:	
2018	\$ 980,000
2019	1,015,000
2020	1,055,000
2021	1,150,000
2022	1,145,000
Thereafter	<u>7,785,000</u>
	<u>\$ 13,130,000</u>

The outstanding debt balance had estimated fair values of \$13,596,687 and \$15,055,008 at June 30, 2017 and 2016, respectively. The fair value of the outstanding debt was determined based on observable rates currently available for debt instruments with similar credit ratings and maturities, which are considered Level 2 inputs (see note 5).

The bond agreement contains 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 was in compliance with its covenants as of June 30, 2017.

(4) Investments

Endowment and similar assets include endowment funds, funds functioning as endowment, charitable gift annuities, charitable remainder trusts, and beneficial interests in outside trusts. At June 30, 2017 and 2016, investments and cash and cash equivalents comprised the following:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 5,345,512	4,632,532
Commonfund:		
Equity funds	87,865,875	83,457,741
Fixed income funds	37,152,103	28,494,582
Alternative funds, marketable	7,058,146	8,910,115
Alternative funds, nonmarketable	2,819,318	2,554,776
Common stocks	816,365	826,864
Preferred stocks	425,920	970,090
Equity and balanced mutual funds	8,316,287	7,207,169
Fixed income	317,766	315,016
Beneficial interest in perpetual trusts	14,086,126	11,254,620
Other	<u>337,608</u>	<u>375,590</u>
	<u>\$ 164,541,026</u>	<u>148,999,095</u>

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The total net gain or loss for the years ending June 30, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Unrealized net gains (losses)	\$ 5,007,087	(6,769,830)
Realized net gains (losses)	<u>7,460,425</u>	<u>(3,635,116)</u>
Total net gains (losses)	<u>\$ 12,467,512</u>	<u>(10,404,946)</u>

Interest income earned on operating cash equivalents and included in other unrestricted revenue was approximately \$48,000 and \$40,000 for the years ended June 30, 2017 and 2016, respectively. Investment income on endowment and similar assets is recorded within the consolidated 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets	\$ 1,368,180	1,321,097
Temporarily restricted net assets	4,973,276	4,695,240
Permanently restricted net assets	155,096	129,927

(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. 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.

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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.

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 valuations 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.

The University holds interests in various funds that are illiquid and do not allow for short-term redemption. Nonmarketable alternative funds are valued at their net asset value (NAV) as a practical expedient in determining fair value. The fair value of those funds as of June 30, 2017 and 2016 was \$2,819,318 and \$2,554,776 respectively. 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.

Level 3 investments include the University's portion of beneficial interests in several perpetual trusts held and administered by others in which the University is an income beneficiary. The primary input utilized in calculating the perpetual trusts' fair value is its net assets, which represents fair market valuation of certain equity, debt, and other instruments held by the perpetual trusts. In this manner, the perpetual trusts' valuation approximates fair market value. As the investments cannot be redeemed at the fair value, the University has classified these investments as Level 3 within the fair value hierarchy table.

The University has various alternative investments that have minimum capital commitments. As of June 30, 2017, the University has committed to make a total investment of \$8,100,000, of which \$3,617,350 has been invested, leaving \$4,482,650 of outstanding commitments. As of June 30, 2016, the University has committed to make a total investment of \$7,100,000, of which \$3,273,600 had been invested, leaving \$3,826,400 of outstanding commitments.

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The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2017:

	Balance at June 30, 2017	Level 1	Level 2	Level 3
Investments by fair value level:				
Cash and cash equivalents	\$ 5,171,211	5,171,211	—	—
Short-term investments	4,338,962	4,338,962	—	—
Cash equivalents, endowment and similar	5,345,512	5,345,512	—	—
Commonfund:				
Equity funds	87,865,875	87,865,875	—	—
Fixed income funds	37,152,103	37,152,103	—	—
Alternative funds, marketable	7,058,146	7,058,146	—	—
Common stocks	816,365	816,365	—	—
Preferred stocks	425,920	425,920	—	—
Equity and balanced mutual funds	8,316,287	8,316,287	—	—
Fixed income	317,766	—	317,766	—
Beneficial interest in perpetual trusts	14,086,126	—	—	14,086,126
Other	337,608	—	337,608	—
Receivables (pending cash activity)	1,448	—	1,448	—
Total investments by fair value level	<u>171,233,329</u>	<u>156,490,381</u>	<u>656,822</u>	<u>14,086,126</u>
Investments measured at the net asset value (NAV):				
Alternative funds, nonmarketable	<u>2,819,318</u>			
Total investments at fair value	<u>\$ 174,052,647</u>			

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The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2016:

	Balance at June 30, 2016	Level 1	Level 2	Level 3
Investments by fair value level:				
Cash and cash equivalents	\$ 4,789,547	4,789,547	—	—
Short-term investments	7,315,931	7,315,931	—	—
Cash equivalents, endowment and similar	4,632,532	4,632,532	—	—
Commonfund:				
Equity funds	83,457,741	83,457,741	—	—
Fixed income funds	28,494,582	28,494,582	—	—
Alternative funds, marketable	8,910,115	8,910,115	—	—
Common stocks	826,824	826,824	—	—
Preferred stocks	970,000	970,000	—	—
Equity and balanced mutual funds	7,207,169	7,207,169	—	—
Fixed income	315,016	—	315,016	—
Beneficial interest in perpetual trusts	11,254,620	—	—	11,254,620
Other	375,590	—	375,590	—
Receivables (pending cash activity)	2,329,327	—	2,329,327	—
Total investment by fair value level	160,878,994	<u>146,604,441</u>	<u>3,019,933</u>	<u>11,254,620</u>
Investments measured at net asset value (NAV):				
Alternative funds, nonmarketable	<u>2,554,776</u>			
Total investments at fair value	\$ <u>163,433,770</u>			

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. During the year ended June 30, 2017, the University re-evaluated the measurement of the nonmarketable alternative funds, noting that they are valued at NAV as a practical expedient. As a result, the funds were removed from the fair value hierarchy and included as an investment measured at NAV.

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There were no other transfers between Level 1 and 2, or 3 investments for the fiscal years ended June 30, 2017 and 2016. The following table presents activity for assets classified as Level 3:

Fair value measurements using unobservable inputs (Level 3)	Beneficial interest in perpetual trusts
Balance at June 30, 2015	\$ 11,523,573
Additions	—
Distributions	—
Investment income	573,904
Payments	(573,904)
Realized and unrealized gains (losses)	(268,953)
Balance at June 30, 2016	11,254,620
Additions	1,930,736
Distributions	—
Investment income	558,154
Payments	(558,154)
Realized and unrealized gains	900,770
Balance at June 30, 2017	\$ 14,086,126

(6) Endowment

The University's endowment consists of approximately 500 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 current spending policy is to withdraw each year an amount not exceeding 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 consolidated statements of activities for each of the three net asset classes show these withdrawals as endowment investment income.

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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 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, 2017 and 2016.

The following tables present the endowment net asset composition by fund type as of June 30, 2017 and June 30, 2016.

June 30, 2017				
	Permanently restricted	Temporarily restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 132,573,570	7,904,375	—	140,477,945
Board designated funds	—	—	4,032,386	4,032,386
	\$ 132,573,570	7,904,375	4,032,386	144,510,331

June 30, 2016				
	Permanently restricted	Temporarily restricted	Unrestricted	Total
Donor-restricted endowment funds	\$ 120,203,720	7,485,999	—	127,689,719
Board designated funds	—	—	3,849,558	3,849,558
	\$ 120,203,720	7,485,999	3,849,558	131,539,277

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The following table presents the changes in endowment net assets held by the University for the years ended June 30, 2017 and 2016:

	Permanently restricted	Temporarily restricted	Unrestricted	Total
Balances June 30, 2015	\$ 127,320,271	10,503,631	4,448,664	142,272,566
Investment income	5,448,640	331,816	175,019	5,955,475
Investment losses	(8,762,349)	(966,709)	(411,330)	(10,140,388)
Gifts and gift pledges	1,482,197	988	—	1,483,185
Transfers and other	54,009	—	—	54,009
Distributions for expenditure	<u>(5,339,048)</u>	<u>(2,383,727)</u>	<u>(362,795)</u>	<u>(8,085,570)</u>
Balances June 30, 2016	120,203,720	7,485,999	3,849,558	131,539,277
Investment income	5,814,510	320,755	177,912	6,313,177
Investment gains	9,118,416	1,232,544	205,904	10,556,864
Gifts and gift pledges	2,603,547	13,553	—	2,617,100
Transfers and other	514,233	(20,354)	36,924	530,803
Distributions for expenditure	<u>(5,680,856)</u>	<u>(1,128,122)</u>	<u>(237,912)</u>	<u>(7,046,890)</u>
Balances June 30, 2017	<u>\$ 132,573,570</u>	<u>7,904,375</u>	<u>4,032,386</u>	<u>144,510,331</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.

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

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(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, 2017 and 2016, the University's contributions were approximately \$2,404,000 and \$2,272,000, 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 Receivable

Gift pledges receivable totaling \$3,103,027 and \$3,325,059 at June 30, 2017 and 2016, 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 \$142,716 and \$144,529 were recorded at June 30, 2017 and 2016, respectively.

Gift pledges are expected to be realized as follows:

	<u>2017</u>	<u>2016</u>
In one year or less	\$ 1,614,324	2,019,394
Between one and five years	1,461,434	1,285,518
More than five years	<u>27,269</u>	<u>20,147</u>
	3,103,027	3,325,059
Less:		
Allowance for uncollectible pledges	(130,582)	(138,000)
Discount on pledges	<u>(142,716)</u>	<u>(144,529)</u>
Net pledges receivable	<u>\$ 2,829,729</u>	<u>3,042,530</u>

Conditional promises to give totaled approximately \$29,600,000 as of June 30, 2017. This amount consists of commitments contained in wills and insurance policies. The amount at June 30, 2016, was \$23,800,000. Conditional promises to give are not recorded in the consolidated financial statements.

(10) Line of Credit

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, 2017 and 2016.

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(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 has formed two for-profit limited liability companies with corporate investors, 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, 2012 and 2011. The investor's payment for tax credits was included as an increase to temporarily restricted net assets during the year ended June 30, 2012. During the year ended June 30, 2017, the parties terminated KCM I, and title to the buildings reverted to the University.

KBS renovated and expanded three residence halls, Klein, 63 Beech, and Saylor. This work took place during the 2013 and 2014 fiscal years. The University opened Klein and 63 Beech for fall semester 2013 and Saylor for spring semester 2014. KBS received payment for the tax credits during the fiscal year ended June 30, 2014 and that amount was included as an increase to temporarily restricted net assets.

(12) Subsequent Events

The University evaluated subsequent events applicable to the year ended June 30, 2017 through November 9, 2017 the date the consolidated financial statements are available to be issued. No reportable events, other than those described, have occurred.

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Supplementary Information

Years ended June 30, 2017, 2016, 2015, and 2014

(Certain unaudited information)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets and liabilities (in millions):				
Operating cash and short-term investments	\$ 9.5	12.1	15.6	11.1
Student and other receivables, net	4.8	3.9	4.0	9.6
Gift pledges receivable, net	2.8	3.0	3.8	5.2
Student loan notes (primarily Perkins) receivable, net	4.0	3.9	3.8	3.9
Inventories and prepaid expenses	3.2	3.7	2.9	2.9
Endowment and similar assets, fair value	164.5	149.0	155.7	141.4
Physical plant (historical cost)	248.8	247.4	239.7	234.1
Accumulated depreciation	(115.2)	(108.3)	(100.7)	(94.4)
Total assets	<u>322.4</u>	<u>314.7</u>	<u>324.8</u>	<u>313.8</u>
Accounts payable and accruals	4.1	4.4	4.5	4.0
Deferred revenue and student deposits	2.3	3.5	2.9	3.5
Other liabilities	7.5	7.2	6.9	7.4
Long-term debt	13.1	14.1	15.0	15.9
Total liabilities	<u>27.0</u>	<u>29.2</u>	<u>29.3</u>	<u>30.8</u>
Net assets (in millions):				
Expendable, unrestricted	(1.2)	(1.1)	(1.4)	0.3
Expendable, restricted	12.9	15.0	15.5	16.9
Functioning as endowment	11.9	11.3	14.9	12.7
Endowment	132.6	120.2	127.4	114.9
Annuities and trusts	19.8	16.3	16.7	17.0
Student loans	1.9	1.7	1.6	1.5
Plant	117.5	122.1	120.8	119.7
Total net assets	<u>\$ 295.4</u>	<u>285.5</u>	<u>295.5</u>	<u>283.0</u>
Enrollment, fall term (unaudited):				
Full-time undergraduate	\$ 3,058	3,056	2,969	2,959
Part-time undergraduate	257	330	401	426
Graduate	646	627	617	675
Total	<u>\$ 3,961</u>	<u>4,013</u>	<u>3,987</u>	<u>4,060</u>
Full-time equivalent	\$ 3,588	3,575	3,505	3,616
Residence hall occupancy, fall term (unaudited)	1,765	1,835	1,816	1,817
New day students, fall term (unaudited):				
Applied	\$ 4,894	4,789	4,598	4,689
Admitted	2,882	2,822	2,944	2,931
Enrolled	831	911	881	907

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2017, 2016, 2015, and 2014

(Certain unaudited information)

(In millions)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Activities summary:				
Tuition and fees	\$ 107.6	104.3	98.1	95.5
Less student financial aid grants	<u>44.8</u>	<u>42.7</u>	<u>39.6</u>	<u>39.1</u>
Net tuition and fees	62.8	61.6	58.5	56.4
Private gifts, grants, and pledges	9.5	7.8	24.7	11.9
Endowment and similar investment income	6.4	6.1	6.0	5.8
Government grants	1.6	1.5	1.6	1.5
Auxiliary enterprise revenue	20.3	20.5	19.4	18.6
Other income	<u>1.5</u>	<u>1.5</u>	<u>1.6</u>	<u>0.9</u>
Totals	102.1	99.0	111.8	95.1
Expenses	<u>101.8</u>	<u>98.5</u>	<u>96.1</u>	<u>89.6</u>
Net revenue	0.3	0.5	15.7	5.5
Value from historic renovation tax credits	—	—	—	5.2
Loss on sale of donated real estate	(2.9)	—	—	—
Endowment and similar investment gains (losses)	<u>12.5</u>	<u>(10.4)</u>	<u>(3.3)</u>	<u>16.0</u>
Increase (decrease) in net assets	<u>\$ 9.9</u>	<u>(9.9)</u>	<u>12.4</u>	<u>26.7</u>
Gift purposes:				
Endowment and similar	\$ 4.6	1.5	14.4	4.7
Plant	1.2	0.5	1.5	1.7
Unrestricted	1.3	1.2	1.9	1.3
Program or financial aid	<u>2.4</u>	<u>4.6</u>	<u>6.9</u>	<u>4.2</u>
Totals	<u>\$ 9.5</u>	<u>7.8</u>	<u>24.7</u>	<u>11.9</u>
Distributions of investment income:				
Unrestricted	\$ 1.3	1.3	1.4	1.4
Program or financial aid	4.7	4.5	4.3	4.1
Endowment (reinvested per donors' instructions)	0.2	0.1	0.1	0.1
Plant	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
	<u>\$ 6.4</u>	<u>6.1</u>	<u>6.0</u>	<u>5.8</u>

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2017, 2016, 2015, and 2014

(Certain unaudited information)

(In millions)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Fees charged per full-time student (unaudited):				
Tuition	\$ 30,776	29,908	28,814	27,840
Residence hall room (double)	5,052	4,834	4,648	4,470
Campus card (food, bookstore)	5,278	5,050	4,856	4,670
	<u>\$ 41,106</u>	<u>39,792</u>	<u>38,318</u>	<u>36,980</u>
Student financial aid grants (in millions):				
Unrestricted funds	\$ 39.6	37.9	34.7	34.0
Restricted gifts, grants, and endowment earnings	5.2	4.8	4.9	5.1
Total university aid	<u>44.8</u>	<u>42.7</u>	<u>39.6</u>	<u>39.1</u>
Government grants to students administered by the University:				
Pell and other federal	5.0	4.8	4.9	4.9
Ohio Opportunity and other state	1.5	2.1	2.2	1.9
Total government administered	<u>6.5</u>	<u>6.9</u>	<u>7.1</u>	<u>6.8</u>
Total grant aid	<u>\$ 51.3</u>	<u>49.6</u>	<u>46.7</u>	<u>45.9</u>
Student financial aid grants as a percentage of tuition revenue from full-time students (unaudited):				
Unrestricted	42 %	42 %	42 %	43 %
Restricted gifts, grants, and endowment earnings	5	5	6	6
Total university aid	47	47	48	49
Administered	7	8	9	9
Total	<u>54 %</u>	<u>55 %</u>	<u>57 %</u>	<u>58 %</u>
Dollar amounts per full-time equivalent enrollment (unaudited):				
Academic and student services	\$ 16,600	15,800	15,600	14,100
Educational plant and general support	7,900	8,000	8,000	7,000
Gift support	2,600	2,200	7,000	3,300
Endowment market value	45,900	41,700	44,400	39,100

See accompanying independent auditors' report.