



BALDWIN WALLACE UNIVERSITY

Consolidated Financial Statements and Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

BALDWIN WALLACE UNIVERSITY

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Baldwin Wallace University Summary of Operations, for the Year Ended June 30, 2018 (unaudited)

Founded in 1845 as Baldwin Institute, Baldwin Wallace University (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 Accountancy, 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 2017-2018 academic year opened with a total fall semester enrollment of 3,816. This total included 2,979 full-time undergraduate students, 229 part-time undergraduates, and 608 graduate students. The full-time-equivalent enrollment was 3,471, down 117 from the previous fall.

Billed tuition and fee revenue was \$107,764,524, including \$95,569,866 for full time students. Offsetting this were financial aid grants awarded by Baldwin Wallace University totaling \$45,359,485. Students also received direct federal and state grants amounting to \$7,486,771. Baldwin Wallace University administers these government grants. The combined grants were 55% of tuition revenue billed to full time students. Additional forms of financial aid included \$32.8 million of Federal Direct Student Loans administered by the University, and \$2.9 million of wages paid for campus jobs.

Total spending for programs and support was \$101,712,758 down \$114,705 from the previous year. BW continued its long practice of operating with balanced budgets. The operating margin was \$573,318.

Total net assets increased \$23,100,819, to \$318,516,205. The sources of revenue, in addition to tuition net of financial aid, were auxiliary enterprise fees and sales of \$20.0 million, gifts and grants of \$27.9 million, endowment and similar investment income of \$6.7 million, other sources of \$1.5 million, and investment gains of \$6.3 million. Over half of the gift and grant amount, \$14.6 million, was restricted for plant spending, including \$12.5 million for construction of a new mathematics and computer science building. The auxiliary enterprises are the residence and dining halls, bookstore, campus vending, and rental housing.

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 \$681,610, temporarily restricted increased

\$12,832,349, largely due to the gifts for plant, and permanently restricted, including most of the investment gains, increased \$9,586,860.

The market value of endowment and similar assets at June 30, 2018 was \$174,762,903, up approximately \$10 million from June 30, 2017. The increase included the investment gains and new gifts. The total includes donor restricted endowments (\$140 million), funds functioning as endowment, gift annuities, remainder trusts, and beneficial interests in perpetual trusts.

Plant spending totaled approximately \$17 million, with \$10.4 million of that amount being for the construction of a new building. The remaining amount included renovations and improvements to existing buildings and purchases of equipment and furnishings. It also included plans for the new mathematics and computer science building.

The new building, completed subsequent to the June 30 fiscal year end, is a 64,000 square foot mixed use facility located on Front Street, adjacent to the Kulas Musical Arts Building. BW has partnered with a developer in this project. The developer owns the street level floor, and BW owns the three upper floors. Those floors are a residence hall housing 131 students. The developer is dividing the street level floor into a number of retail spaces. The University is leasing two of those spaces. One holds a University owned and operated Starbucks franchise. Next to it is a new campus store named "The Buzz on Front." It features books and BW clothing items, textbooks and course materials remain in the bookstore in the Strosacker Union.

The University financed the construction of its portion of the mixed use facility with an interim variable rate bank loan. Upon completion of construction, the parties converted the balance of \$13,852,000 to a fixed rate long term loan. The fixed rate is 2.76% and the loan matures on July 1, 2043.

See the Supplementary Information section of this report for multi-year comparisons of enrollment, fee, and financial data.



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 consolidated 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". The signature is written in a cursive style.

William M. Reniff
Vice President for Finance and Administration



KPMG LLP
One Cleveland Center
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, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2018 and 2017, 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, 2018 and 2017 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 2018 and 2017 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 audits of the University's 2018 and 2017 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 2018 and 2017 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 2018 and 2017 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, 2016 and 2015, and the related statements of activities and cash flows for the years then ended (none of which is presented herein), and we expressed unmodified opinions on those financial statements. The supplementary information included in Schedule I for the years ended June 30, 2016 and 2015 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 2016 and 2015 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 of the University's 2016 and 2015 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 2016 and 2015 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 2016 and 2015 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 6, 2018 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 6, 2018

BALDWIN WALLACE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2018 and 2017

| Assets | 2018 | 2017 |
|--|-----------------------|----------------------|
| Operating assets: | | |
| Cash and cash equivalents | \$ 12,981,771 | 5,171,211 |
| Short-term investments | 8,377,464 | 4,338,962 |
| Student accounts receivable, less allowance for doubtful receivables of \$87,000 and \$91,000 as of June 30, 2018 and 2017, respectively | 3,687,176 | 3,455,418 |
| Receivables from the federal and state governments | 1,245,283 | 1,094,600 |
| Other receivables, less allowance for doubtful receivables of \$34,000 as of both June 30, 2018 and 2017 | 727,077 | 261,853 |
| Inventory | 1,715,873 | 1,963,919 |
| Prepaid expenses | 2,675,837 | 1,246,062 |
| Pledges receivable, less allowance for doubtful pledges of \$135,000 and \$131,000 as of June 30, 2018 and 2017, respectively | 4,149,617 | 2,829,729 |
| Student loan notes receivable, less allowance for doubtful loans of \$602,000 as of both June 30, 2018 and 2017 | 3,923,077 | 4,022,228 |
| Total operating assets | <u>39,483,175</u> | <u>24,383,982</u> |
| Endowment and similar assets: | | |
| Cash equivalents | 2,470,985 | 5,345,512 |
| Investments, at fair value | 157,077,493 | 145,109,388 |
| Beneficial interests in perpetual trusts | 15,214,425 | 14,086,126 |
| Total endowment and similar assets | <u>174,762,903</u> | <u>164,541,026</u> |
| Plant and equipment: | | |
| Grounds | 16,382,912 | 15,031,109 |
| Educational and general buildings | 154,430,140 | 152,777,819 |
| Residence halls | 49,723,519 | 49,197,815 |
| Residences | 4,000,746 | 3,539,883 |
| Furniture and equipment | 28,365,211 | 28,067,918 |
| Construction in progress | 11,681,988 | 100,000 |
| | <u>264,584,516</u> | <u>248,714,544</u> |
| Less accumulated depreciation | <u>(122,747,321)</u> | <u>(115,240,447)</u> |
| Net plant assets | <u>141,837,195</u> | <u>133,474,097</u> |
| Total assets | <u>\$ 356,083,273</u> | <u>322,399,105</u> |

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Financial Position
June 30, 2018 and 2017

| Liabilities and Net Assets | 2018 | 2017 |
|---|----------------|-------------|
| Liabilities: | | |
| Accounts payable | \$ 1,884,644 | 1,070,672 |
| Accrued expenses | 3,163,338 | 2,982,702 |
| Deferred revenue and student deposits | 2,412,831 | 2,317,521 |
| Other liabilities | 1,391,049 | 1,288,855 |
| Annuity obligations | 4,281,087 | 4,082,309 |
| Government advances for student loans (Perkins loans) | 2,059,119 | 2,111,660 |
| Long-term debt | 22,375,000 | 13,130,000 |
| Total liabilities | 37,567,068 | 26,983,719 |
| Net assets: | | |
| Unrestricted | 66,286,265 | 65,604,655 |
| Temporarily restricted: | | |
| Program | 20,003,507 | 18,888,754 |
| Student financial aid | 6,385,477 | 6,441,727 |
| Plant and equipment | 71,161,907 | 59,388,061 |
| Total temporarily restricted | 97,550,891 | 84,718,542 |
| Permanently restricted: | | |
| Program | 78,182,807 | 74,283,677 |
| Student financial aid | 70,019,656 | 64,506,230 |
| Plant and equipment | 6,476,586 | 6,302,282 |
| Total permanently restricted | 154,679,049 | 145,092,189 |
| Total net assets | 318,516,205 | 295,415,386 |
| Total liabilities and net assets | \$ 356,083,273 | 322,399,105 |

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Activities
Years ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Changes in unrestricted net assets: | | |
| Revenue: | | |
| Tuition and fees | \$ 107,764,524 | 107,569,222 |
| Less student financial aid grants | <u>(45,359,485)</u> | <u>(44,807,769)</u> |
| Net tuition and fees | 62,405,039 | 62,761,453 |
| Private gifts and grants | 1,698,075 | 1,334,571 |
| Endowment and similar investment income | 1,437,490 | 1,368,180 |
| Auxiliary enterprises | 19,981,347 | 20,290,064 |
| Other | <u>671,959</u> | <u>755,372</u> |
| Total revenue | <u>86,193,910</u> | <u>86,509,640</u> |
| Net assets released from restrictions: | | |
| Program | 6,981,393 | 6,306,391 |
| Student financial aid grants | 5,199,174 | 5,204,473 |
| Plant and equipment | <u>3,859,538</u> | <u>5,273,056</u> |
| Total net assets released from restrictions | <u>16,040,105</u> | <u>16,783,920</u> |
| Total revenue and net assets released from restrictions | <u>102,234,015</u> | <u>103,293,560</u> |
| Expenses: | | |
| Instruction | 47,084,115 | 46,163,257 |
| Academic support | 7,052,165 | 7,326,662 |
| Library | 1,921,921 | 2,016,538 |
| Student services | 9,203,617 | 9,474,398 |
| Organized student activities | 8,146,447 | 7,906,820 |
| Institutional support | 13,913,104 | 14,532,833 |
| Auxiliary enterprises | <u>14,391,389</u> | <u>14,406,955</u> |
| Total expenses | 101,712,758 | 101,827,463 |
| Endowment and similar investment gains, net | <u>160,353</u> | <u>205,904</u> |
| Increase in unrestricted net assets | <u>681,610</u> | <u>1,672,001</u> |

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Activities
Years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|----------------|--------------|
| Changes in temporarily restricted net assets: | | |
| Revenue: | | |
| Private gifts, grants, and pledges | \$ 20,082,899 | 3,554,293 |
| Endowment and similar investment income | 5,252,342 | 4,973,276 |
| Government grants | 1,447,272 | 1,582,576 |
| Other | 541,123 | 309,524 |
| Total revenue | 27,323,636 | 10,419,669 |
| Net assets released from restrictions: | | |
| Program | (6,981,393) | (6,306,391) |
| Student financial aid grants | (5,199,174) | (5,204,473) |
| Plant and equipment | (3,859,538) | (5,273,056) |
| Total net assets released from restrictions | (16,040,105) | (16,783,920) |
| Endowment and similar investment gains, net | 1,548,818 | 2,468,903 |
| Loss on sale of donated real estate | — | (2,951,726) |
| Increase (decrease) in temporarily restricted net assets | 12,832,349 | (6,847,074) |
| Changes in permanently restricted net assets: | | |
| Revenue: | | |
| Private gifts, grants, and pledges | 4,639,198 | 4,572,145 |
| Endowment and similar investment income | 146,034 | 155,096 |
| Other | 227,325 | 516,200 |
| Total revenue | 5,012,557 | 5,243,441 |
| Endowment and similar investment gains, net | 4,574,303 | 9,792,705 |
| Increase in permanently restricted net assets | 9,586,860 | 15,036,146 |
| Increase in net assets | 23,100,819 | 9,861,073 |
| Net assets at beginning of year | 295,415,386 | 285,554,313 |
| Net assets at end of year | \$ 318,516,205 | 295,415,386 |

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY
Consolidated Statements of Cash Flows
Years ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|--------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 23,100,819 | 9,861,073 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 9,689,784 | 9,269,107 |
| Net (gains) on endowment and similar investments | (6,283,474) | (12,467,512) |
| Change in student accounts and other receivables | (1,328,039) | (947,714) |
| Change in inventory and prepaid expenses | (1,181,729) | 440,465 |
| Change in accounts payable and accrued expenses | 223,447 | (116,792) |
| Change in deferred revenue, annuity obligations, government advances, and other liabilities | 343,741 | (842,078) |
| Contribution of beneficial interest in perpetual trust | (367,325) | (1,968,598) |
| Contributions of equipment | (1,000) | (18,000) |
| Loss on sale of donated building | — | 3,062,312 |
| Contributions restricted for long-term investment | (20,232,494) | (3,187,751) |
| Other income restricted for long-term investment | (763,908) | (1,606,047) |
| Net cash provided by operating activities | <u>3,199,822</u> | <u>1,478,465</u> |
| Cash flows from investing activities: | | |
| Purchases of plant and equipment | (17,280,721) | (7,824,052) |
| Sale of donated real estate | — | 890,528 |
| Purchases of endowment and similar investments | (39,898,883) | (94,680,563) |
| Sales of endowment and similar investments | 36,327,805 | 93,574,742 |
| Purchases of short-term investments | (7,239,368) | (10,705) |
| Sales of short-term investments | 3,200,866 | 2,987,674 |
| Change in student loans | 99,151 | (112,349) |
| Net cash used in investing activities | <u>(24,791,150)</u> | <u>(5,174,725)</u> |
| Cash flows from financing activities: | | |
| Contributions restricted for long-term investment | 19,392,980 | 3,426,877 |
| Other income restricted for long-term investment | 763,908 | 1,606,047 |
| Bank borrowing for construction | 10,225,000 | — |
| Principal payments on bonds | (980,000) | (955,000) |
| Net cash provided by financing activities | <u>29,401,888</u> | <u>4,077,924</u> |
| Change in cash and cash equivalents | 7,810,560 | 381,664 |
| Cash and cash equivalents (excluding endowment assets) at beginning of year | <u>5,171,211</u> | <u>4,789,547</u> |
| Cash and cash equivalents (excluding endowment assets) at end of year | <u>\$ 12,981,771</u> | <u>5,171,211</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 617,033 | 488,537 |
| Construction in progress in accounts payable | 771,161 | 482,562 |

See accompanying notes to consolidated financial statements.

BALDWIN WALLACE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(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 Accountancy, 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 KBS for the years ended June 30, 2018 and 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 releases 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, 2018 and 2017

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. When the donor restriction expires, that is, when a stipulated time restriction or purpose restriction is met, temporarily restricted net assets are transferred to unrestricted net assets. 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.

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, 2018 and 2017:

| | June 30, 2018 | | |
|---|------------------------------|--|--------------|
| | Equity securities | Debt and other securities | Total |
| Unrealized losses less than one year: | | | |
| Amount of unrealized losses | \$ (16,502) | (13,996) | (30,498) |
| Fair value of related securities held in a loss position | 393,903 | 800,561 | 1,194,464 |
| Number of related security positions | 8 | 3 | 11 |
| Unrealized losses greater than one year: | | | |

BALDWIN WALLACE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

| | June 30, 2018 | | |
|---|------------------------------|--|--------------|
| | Equity securities | Debt and other securities | Total |
| Amount of unrealized losses | \$ (1,408) | — | (1,408) |
| Fair value of related securities held in a loss position | 4,719 | — | 4,719 |
| Number of related security positions | 2 | — | 2 |
| Total unrealized losses | (17,910) | (13,996) | (31,906) |
| Unrealized market appreciation | 22,979,256 | 3,989,976 | 26,969,232 |
| Cumulative net unrealized gain | \$ 22,961,346 | 3,975,980 | 26,937,326 |
| | June 30, 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 gain | \$ 22,009,243 | 1,104,753 | 23,113,996 |

(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.

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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 \$11,254,333 at June 30, 2018 and \$9,796,387 at June 30, 2017. 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 assets on the consolidated statement of financial position. The investment balances of \$15,214,425 and \$14,086,126 at June 30, 2018 and 2017, 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 income.

(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, 2018 and 2017. 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.

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(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 approximately \$2,950,000 during the year ended June 30, 2017. There were no disposals during the year ended June 30, 2018.

(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, 2018 and 2017.

(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 \$844,000 and \$797,000 at June 30, 2018 and 2017, respectively. Related discount amortization and depreciation in the fiscal years ended June 30, 2018 and 2017 were approximately \$51,000 and \$45,000, respectively.

(k) Prepaid Expenses

Prepaid expenses consist of prepaid insurance, maintenance, and other costs associated with future periods.

(l) 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.

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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, 2018 and 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was signed into law. The Act contains various provisions affecting both for-profit and not-for-profit entities. Not-for-profit entities are impacted in part by the inclusion of new excise tax on excess compensation for covered employees, changes to unrelated business income, as well as their ability to advance refund bonds. In addition, not-for-profit entities may be impacted through certain for-profit subsidiaries and/or joint ventures based on the Act's provisions for tax rates, measurement of deferred taxes, as well as other limitations on deductions. Management of the University is currently assessing the overall impact of the Act and its impact on the consolidated financial statements.

(m) 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.

(n) 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.

(o) Auxiliary Enterprises

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

(p) 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.

(q) Reclassifications

Certain amounts included in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

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(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, 2018 include net issuance costs of \$109,695. The University is amortizing the issuance costs over the life of the bonds.

The University had the following outstanding principal balances as of June 30, 2018 and 2017:

| | 2018 | 2017 |
|--|----------------------|-------------------|
| State of Ohio Educational Facility Revenue Bonds | \$ 12,150,000 | 13,130,000 |
| Construction loan | 10,225,000 | — |
| Long-term debt, net | \$ 22,375,000 | 13,130,000 |

The annual principal payments required on the bonds for 2019 and thereafter are as follows:

| | |
|-----------------------------|----------------------|
| Fiscal year ending June 30: | |
| 2019 | \$ 1,015,000 |
| 2020 | 1,055,000 |
| 2021 | 1,150,000 |
| 2022 | 1,145,000 |
| 2023 | 1,195,000 |
| Thereafter | 6,590,000 |
| | \$ 12,150,000 |

The outstanding bonds had estimated fair values of \$12,507,083 and \$13,596,687 at June 30, 2018 and 2017, respectively. The fair value of the outstanding bonds 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, 2018.

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On August 8, 2017, the University financed the construction of a new residence hall with a variable rate bank construction loan. The University has the ability to draw up to \$14,000,000. The loan has an indeterminate amortization schedule, and will be converted to a fixed rate loan upon the completion of construction of the residence hall. The interest rate during the year was 3.63 percent. The balance at June 30, 2018 was \$10,225,000. In August of 2018 the construction of the residence hall completed. Refer to footnote 12 for the disclosure of this subsequent event.

(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, 2018 and 2017, investments and cash and cash equivalents comprised the following:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|--------------------|
| Cash equivalents | \$ 2,470,985 | 5,345,512 |
| Commonfund: | | |
| Equity funds | 92,141,753 | 87,865,875 |
| Fixed income funds | 33,995,273 | 37,152,103 |
| Alternative funds, marketable | 13,020,770 | 7,058,146 |
| Alternative funds, nonmarketable | 6,153,988 | 2,819,318 |
| Common stocks | 516,856 | 816,365 |
| Preferred stocks | 502,400 | 425,920 |
| Equity and balanced mutual funds | 9,683,588 | 8,316,287 |
| Fixed income | 602,886 | 317,766 |
| Beneficial interest in perpetual trusts | 15,214,425 | 14,086,126 |
| Other | 459,979 | 337,608 |
| | <u>\$ 174,762,903</u> | <u>164,541,026</u> |

The total endowment and similar investment net gain or loss for the years ending June 30, 2018 and 2017 are comprised of the following:

| | <u>2018</u> | <u>2017</u> |
|----------------------|---------------------|-------------------|
| Unrealized net gains | \$ 3,823,330 | 5,007,087 |
| Realized net gains | 2,460,144 | 7,460,425 |
| Total net gains | <u>\$ 6,283,474</u> | <u>12,467,512</u> |

Interest income earned on operating cash equivalents and included in other unrestricted revenue was approximately \$33,000 and \$48,000 for the years ended June 30, 2018 and 2017, respectively. Investment income on endowment and similar assets is recorded within the consolidated statements of activities in the

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respective net asset category based on donor stipulations. Amounts reported for the years ended June 30, 2018 and 2017 are as follows:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|--------------|-------------|
| Unrestricted net assets | \$ 1,437,490 | 1,368,180 |
| Temporarily restricted net assets | 5,252,342 | 4,973,276 |
| Permanently restricted net assets | 146,034 | 155,096 |

(5) Fair Value Measurements

The University has adopted the recognition and disclosure provisions prescribed in Accounting Standards Codification (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.

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, 2018 and 2017 was \$6,153,988 and \$2,819,318 respectively. These funds utilize a multi-manager approach, allocating assets to investment

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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, 2018, the University has committed to make a total investment of \$11,100,000, of which \$6,896,350 has been invested, leaving \$4,203,650 of outstanding 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.

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2018:

| | <u>Balance at June 30, 2018</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|-------------------------------------|--------------------|------------------|-------------------|
| Investments by fair value level: | | | | |
| Cash and cash equivalents | \$ 12,981,771 | 12,981,771 | — | — |
| Short-term investments | 8,377,464 | 8,377,464 | — | — |
| Cash equivalents, endowment and similar | 2,470,985 | 2,470,985 | — | — |
| Commonfund: | | | | |
| Equity funds | 92,141,753 | 92,141,753 | — | — |
| Fixed income funds | 33,995,273 | 33,995,273 | — | — |
| Alternative funds, marketable | 13,020,770 | 13,020,770 | — | — |
| Common stocks | 516,856 | 516,856 | — | — |
| Preferred stocks | 502,400 | 502,400 | — | — |
| Equity and balanced mutual funds | 9,683,588 | 9,683,588 | — | — |
| Fixed income | 602,886 | — | 602,886 | — |
| Beneficial interest in perpetual trusts | 15,214,425 | — | — | 15,214,425 |
| Other | 459,979 | — | 459,979 | — |
| Total assets by fair value level | 189,968,150 | <u>173,690,860</u> | <u>1,062,865</u> | <u>15,214,425</u> |
| Investments measured at the net asset value (NAV): | | | | |
| Alternative funds, nonmarketable | <u>6,153,988</u> | | | |
| Total assets at fair value | \$ <u>196,122,138</u> | | | |

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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 | 171,233,329 | <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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There were no transfers between Level 1 and 2, or 3 investments for the fiscal years ended June 30, 2018 and 2017. Perpetual trusts utilize significant unobservable inputs determined by the external trustees in estimating fair value. 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, 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 |
| Additions | 367,325 |
| Distributions | — |
| Investment income | 988,133 |
| Payments | (665,969) |
| Realized and unrealized gains | 438,810 |
| Balance at June 30, 2018 | \$ 15,214,425 |

(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

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activities 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 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, 2018 and 2017.

The following tables present the endowment net asset composition by fund type as of June 30, 2018 and June 30, 2017.

| June 30, 2018 | | | | |
|----------------------------------|-----------------------------------|-----------------------------------|---------------------|--------------|
| | Permanently restricted | Temporarily restricted | Unrestricted | Total |
| Donor-restricted endowment funds | \$ 139,885,924 | 7,503,340 | — | 147,389,264 |
| Board designated funds | — | — | 4,890,860 | 4,890,860 |
| | \$ 139,885,924 | 7,503,340 | 4,890,860 | 152,280,124 |

| 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 |

The following table presents the changes in endowment net assets held by the University for the years ended June 30, 2018 and 2017:

| | Permanently restricted | Temporarily restricted | Unrestricted | Total |
|-------------------------------|-----------------------------------|-----------------------------------|---------------------|--------------|
| 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 | 2,603,547 | 13,553 | — | 2,617,100 |
| Transfers and other | 514,233 | (20,354) | 36,924 | 530,803 |
| Distributions for expenditure | (5,680,856) | (1,128,122) | (237,912) | (7,046,890) |

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| | <u>Permanently restricted</u> | <u>Temporarily restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|-------------------------------|-----------------------------------|-----------------------------------|---------------------|--------------------|
| Balances June 30, 2017 | \$ 132,573,570 | 7,904,375 | 4,032,386 | 144,510,331 |
| Investment income | 6,125,889 | 308,876 | 214,479 | 6,649,244 |
| Investment gains | 3,068,809 | 452,014 | 160,354 | 3,681,177 |
| Gifts | 3,897,556 | 508,617 | — | 4,406,173 |
| Transfers and other | 227,325 | (20,000) | 890,528 | 1,097,853 |
| Distributions for expenditure | <u>(6,007,225)</u> | <u>(1,650,542)</u> | <u>(406,887)</u> | <u>(8,064,654)</u> |
| Balances June 30, 2018 | <u>\$ 139,885,924</u> | <u>7,503,340</u> | <u>4,890,860</u> | <u>152,280,124</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 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.

(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, 2018 and 2017, the University's contributions were approximately \$2,467,000 and \$2,404,000, 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.

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(9) Gift Pledges Receivable

Gift pledges receivable totaling \$4,576,562 and \$3,103,027 at June 30, 2018 and 2017, 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 \$291,945 and \$142,716 were recorded at June 30, 2018 and 2017, respectively.

Gift pledges are expected to be realized as follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|---------------------|------------------|
| In one year or less | \$ 1,542,866 | 1,614,324 |
| Between one and five years | 3,003,473 | 1,461,434 |
| More than five years | <u>30,223</u> | <u>27,269</u> |
| | 4,576,562 | 3,103,027 |
| Less: | | |
| Allowance for uncollectible pledges | (135,000) | (130,582) |
| Discount on pledges | <u>(291,945)</u> | <u>(142,716)</u> |
| Net pledges receivable | <u>\$ 4,149,617</u> | <u>2,829,729</u> |

Conditional promises to give totaled approximately \$33,400,000 as of June 30, 2018. This amount consists of commitments contained in wills and insurance policies. The amount at June 30, 2017, was \$29,600,000. 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, 2018 and 2017.

(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 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.

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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, 2018 through November 6, 2018 the date the consolidated financial statements are available to be issued. Other than the issue disclosed in the following paragraph, there were no other material subsequent event matters identified for disclosure in the consolidated financial statements.

In August of 2018, the construction of the residence hall construction completed. The balance of the variable rate bank construction loan at the completion of construction was \$13,852,000. This loan was converted into a fixed rate loan. The loan matures through 2043 and has an interest rate of 2.76%.

The annual principal payments required on the bonds for 2019 and thereafter are as follows:

| | |
|-----------------------------|----------------------|
| Fiscal year ending June 30: | |
| 2019 | \$ 461,700 |
| 2020 | 554,080 |
| 2021 | 554,080 |
| 2022 | 554,080 |
| 2023 | 554,080 |
| Thereafter | <u>11,173,980</u> |
| | <u>\$ 13,852,000</u> |

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2018, 2017, 2016, and 2015

(Certain unaudited information)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-----------------|----------------|----------------|----------------|
| Assets and liabilities (in millions): | | | | |
| Operating cash and short-term investments | \$ 21.4 | 9.5 | 12.1 | 15.6 |
| Student and other receivables, net | 5.7 | 4.8 | 3.9 | 4.0 |
| Gift pledges receivable, net | 4.1 | 2.8 | 3.0 | 3.8 |
| Student loan notes (primarily Perkins) receivable, net | 3.9 | 4.0 | 3.9 | 3.8 |
| Inventories and prepaid expenses | 4.4 | 3.2 | 3.7 | 2.9 |
| Endowment and similar assets, fair value | 174.7 | 164.5 | 149.0 | 155.7 |
| Physical plant (historical cost) | 264.6 | 248.8 | 247.4 | 239.7 |
| Accumulated depreciation | <u>(122.7)</u> | <u>(115.2)</u> | <u>(108.3)</u> | <u>(100.7)</u> |
| Total assets | <u>356.1</u> | <u>322.4</u> | <u>314.7</u> | <u>324.8</u> |
| Accounts payable and accruals | 5.1 | 4.1 | 4.4 | 4.5 |
| Deferred revenue and student deposits | 2.4 | 2.3 | 3.5 | 2.9 |
| Other liabilities | 7.7 | 7.5 | 7.2 | 6.9 |
| Long-term debt | <u>22.4</u> | <u>13.1</u> | <u>14.1</u> | <u>15.0</u> |
| Total liabilities | <u>37.6</u> | <u>27.0</u> | <u>29.2</u> | <u>29.3</u> |
| Net assets (in millions): | | | | |
| Expendable | 27.8 | 11.7 | 13.9 | 14.1 |
| Functioning as endowment | 12.4 | 11.9 | 11.3 | 14.9 |
| Endowment | 139.9 | 132.6 | 120.2 | 127.4 |
| Annuities and trusts | 22.2 | 19.8 | 16.3 | 16.7 |
| Student loans | 1.2 | 1.9 | 1.7 | 1.6 |
| Plant | <u>115.0</u> | <u>117.5</u> | <u>122.1</u> | <u>120.8</u> |
| Total net assets | <u>\$ 318.5</u> | <u>295.4</u> | <u>285.5</u> | <u>295.5</u> |
| Enrollment, fall term (unaudited): | | | | |
| Full-time undergraduate | 2,979 | 3,058 | 3,056 | 2,969 |
| Part-time undergraduate | 229 | 257 | 330 | 401 |
| Graduate | <u>608</u> | <u>646</u> | <u>627</u> | <u>617</u> |
| Total | <u>3,816</u> | <u>3,961</u> | <u>4,013</u> | <u>3,987</u> |
| Full time equivalent | 3,471 | 3,588 | 3,575 | 3,505 |
| Residence hall occupancy, fall term (unaudited) | 1,687 | 1,765 | 1,835 | 1,816 |
| New day students, fall term (unaudited): | | | | |
| Applied | 5,232 | 4,894 | 4,789 | 4,598 |
| Admitted | 2,989 | 2,882 | 2,822 | 2,944 |
| Enrolled | 817 | 831 | 911 | 881 |

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2018, 2017, 2016, and 2015

(Certain unaudited information)

(In millions)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|----------------|--------------|---------------|--------------|
| Activities summary: | | | | |
| Tuition and fees | \$ 107.8 | 107.6 | 104.3 | 98.1 |
| Less student financial aid grants | <u>45.4</u> | <u>44.8</u> | <u>42.7</u> | <u>39.6</u> |
| Net tuition and fees | 62.4 | 62.8 | 61.6 | 58.5 |
| Private gifts, grants, and pledges | 26.4 | 9.5 | 7.8 | 24.7 |
| Endowment and similar investment income | 6.8 | 6.4 | 6.1 | 6.0 |
| Government grants | 1.5 | 1.6 | 1.5 | 1.6 |
| Auxiliary enterprise revenue | 20.0 | 20.3 | 20.5 | 19.4 |
| Other income | <u>1.4</u> | <u>1.5</u> | <u>1.5</u> | <u>1.6</u> |
| Totals | 118.5 | 102.1 | 99.0 | 111.8 |
| Expenses | <u>101.7</u> | <u>101.8</u> | <u>98.5</u> | <u>96.1</u> |
| Net revenue | 16.8 | 0.3 | 0.5 | 15.7 |
| Loss on sale of donated real estate | — | (2.9) | — | — |
| Endowment and similar investment gains (losses) | <u>6.3</u> | <u>12.5</u> | <u>(10.4)</u> | <u>(3.3)</u> |
| Increase (decrease) in net assets | <u>\$ 23.1</u> | <u>9.9</u> | <u>(9.9)</u> | <u>12.4</u> |
| Gift purposes: | | | | |
| Endowment and similar | \$ 4.6 | 4.6 | 1.5 | 14.4 |
| Plant | 14.6 | 1.2 | 0.5 | 1.5 |
| Unrestricted | 1.7 | 1.3 | 1.2 | 1.9 |
| Program or financial aid | <u>5.5</u> | <u>2.4</u> | <u>4.6</u> | <u>6.9</u> |
| | <u>\$ 26.4</u> | <u>9.5</u> | <u>7.8</u> | <u>24.7</u> |
| Distributions of investment income: | | | | |
| Unrestricted | \$ 1.4 | 1.3 | 1.3 | 1.4 |
| Program or financial aid | 5.0 | 4.7 | 4.5 | 4.3 |
| Endowment (reinvested per donors' instructions) | 0.1 | 0.2 | 0.1 | 0.1 |
| Plant | <u>0.2</u> | <u>0.2</u> | <u>0.2</u> | <u>0.2</u> |
| | <u>\$ 6.7</u> | <u>6.4</u> | <u>6.1</u> | <u>6.0</u> |

BALDWIN WALLACE UNIVERSITY

Supplementary Information

Years ended June 30, 2018, 2017, 2016, and 2015

(Certain unaudited information)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|---------------|---------------|---------------|
| Fees charged per full-time student (unaudited): | | | | |
| Tuition | \$ 31,668 | 30,776 | 29,908 | 28,814 |
| Residence hall room (double) | 5,280 | 5,052 | 4,834 | 4,648 |
| Campus card (food, bookstore) | 5,516 | 5,278 | 5,050 | 4,856 |
| | <u>\$ 42,464</u> | <u>41,106</u> | <u>39,792</u> | <u>38,318</u> |
| Student financial aid grants (in millions): | | | | |
| Unrestricted funds | \$ 40.2 | 39.6 | 37.9 | 34.7 |
| Restricted gifts, grants, and endowment earnings | 5.2 | 5.2 | 4.8 | 4.9 |
| Total university aid | <u>45.4</u> | <u>44.8</u> | <u>42.7</u> | <u>39.6</u> |
| Government grants to students administered by the University (in millions): | | | | |
| Pell and other federal | 5.1 | 5.0 | 4.8 | 4.9 |
| Ohio Opportunity and other state | 2.3 | 1.5 | 2.1 | 2.2 |
| Total government administered | <u>7.4</u> | <u>6.5</u> | <u>6.9</u> | <u>7.1</u> |
| Total grant aid | <u>\$ 52.8</u> | <u>51.3</u> | <u>49.6</u> | <u>46.7</u> |
| Student financial aid grants as a percentage of tuition revenue from full-time students (unaudited): | | | | |
| Unrestricted | 42 % | 42 % | 42 % | 42 % |
| Restricted gifts, grants, and endowment earnings | 5 | 5 | 5 | 6 |
| Total university aid | 47 | 47 | 47 | 48 |
| Administered | 8 | 7 | 8 | 9 |
| Total | <u>55 %</u> | <u>54 %</u> | <u>55 %</u> | <u>57 %</u> |
| Dollar amounts per full-time equivalent enrollment (unaudited): | | | | |
| Academic and student services | \$ 17,400 | 16,600 | 15,800 | 15,600 |
| Educational plant and general support | 7,900 | 7,900 | 8,000 | 8,000 |
| Gift support | 7,600 | 2,600 | 2,200 | 7,000 |
| Endowment market value | 50,300 | 45,900 | 41,700 | 44,400 |

See accompanying independent auditors' report.