

**OTTERBEIN UNIVERSITY**  
Westerville, Ohio

**FINANCIAL STATEMENTS**  
June 30, 2016 and 2015

OTTERBEIN UNIVERSITY  
Westerville, Ohio  
FINANCIAL STATEMENTS  
June 30, 2016 and 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION .....	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS .....	7

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Otterbein University  
Westerville, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of Otterbein University (the "University"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

---

(Continued)

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Otterbein University as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*

Crowe Horwath LLP

Columbus, Ohio  
October 26, 2016

OTTERBEIN UNIVERSITY  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,158,814	\$ 19,641,260
Accounts and grants receivable, net of allowance for doubtful accounts; \$300,000 in 2016 and 2015	1,529,312	1,296,298
Contributions receivable	985,573	870,868
Prepaid expenses and other assets	1,313,332	1,290,166
Student loans receivable, net of allowance for doubtful accounts; 2016 and 2015 - \$496,500	2,954,808	3,090,488
Restricted bond proceeds	1,204,562	1,204,441
Bond issuance costs, net	440,701	467,698
Investments	95,856,249	102,369,212
Receivable from charitable remainder trusts	674,836	627,544
Beneficial interest in perpetual trusts	651,354	700,081
Property and equipment, net	<u>93,936,971</u>	<u>90,229,394</u>
Total assets	<u>\$ 216,706,512</u>	<u>\$ 221,787,450</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 3,241,138	\$ 2,144,172
Accrued liabilities	4,265,816	4,634,808
Unearned tuition, fees and other deposits	1,574,886	1,607,415
Annuities payable	374,437	352,306
Indebtedness	40,233,250	37,719,223
Advances from federal government for student loans	<u>2,083,474</u>	<u>2,052,180</u>
Total liabilities	<u>\$51,773,000</u>	<u>48,510,104</u>
Net assets		
Unrestricted	104,910,413	108,523,473
Temporarily restricted	26,122,943	31,691,393
Permanently restricted	<u>33,900,155</u>	<u>33,062,480</u>
Total net assets	<u>164,933,511</u>	<u>173,277,346</u>
Total liabilities and net assets	<u>\$ 216,706,512</u>	<u>\$ 221,787,450</u>

See accompanying notes to financial statements.

OTTERBEIN UNIVERSITY  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
<b>Operating revenues, gains and other support</b>					
Student tuition and fees	\$ 74,321,157	\$ -	\$ -	\$ 74,321,157	\$ 74,604,956
Unfunded scholarships and grants-in-aid	(31,077,261)	-	-	(31,077,261)	(30,104,117)
Funded scholarships	(2,386,869)	-	-	(2,386,869)	(2,027,632)
Net student tuition and fees	40,857,027	-	-	40,857,027	42,473,207
Organized activities related to instruction	666,793	-	-	666,793	676,123
Private gifts and grants	1,286,479	863,630	875,343	3,025,452	3,677,303
Government grants and contracts	1,235,776	-	-	1,235,776	1,604,528
Investment draw designated for current operations	2,727,951	2,176,839	-	4,904,790	4,273,531
Other	1,052,521	-	-	1,052,521	918,134
Auxiliary enterprises	11,836,477	-	-	11,836,477	10,941,714
Net assets released from restrictions	4,670,361	(4,670,361)	-	-	-
Total operating revenues, gains and other support	64,333,385	(1,629,892)	875,343	63,578,836	64,564,539
<b>Operating expenses</b>					
Instruction	28,378,074	-	-	28,378,074	28,842,679
Academic support	5,966,482	-	-	5,966,482	6,010,813
Student services	10,997,726	-	-	10,997,726	10,272,088
Public services	446,321	-	-	446,321	610,483
Institutional support	11,169,406	-	-	11,169,406	11,887,886
Auxiliary enterprises	7,503,455	-	-	7,503,455	7,261,529
Total operating expenses	64,461,464	-	-	64,461,464	64,885,478
<b>Change in net assets from operating activities</b>	(128,079)	(1,629,892)	875,343	(882,628)	(320,938)
<b>Non-operating activities</b>					
Investment return in excess (deficit) of amounts designated For current operations	(3,462,777)	(3,938,558)	27,028	(7,374,307)	(1,709,480)
Loss on advance refunding of bonds	-	-	-	-	(538,944)
Unrealized gains (loss) on perpetual trusts held by others	-	-	(48,728)	(48,728)	(20,685)
Change in value of split-interest agreements	(22,204)	-	(15,968)	(38,172)	(38,210)
Change in net assets from non-operating activities	(3,484,981)	(3,938,558)	(37,668)	(7,461,207)	(2,307,319)
<b>Change in net assets</b>	(3,613,060)	(5,568,450)	837,675	(8,343,835)	(2,628,257)
Net assets at beginning of year	108,523,473	31,691,393	33,062,480	173,277,346	175,905,603
<b>Net assets at end of year</b>	<u>\$ 104,910,413</u>	<u>\$ 26,122,943</u>	<u>\$ 33,900,155</u>	<u>\$ 164,933,511</u>	<u>\$ 173,277,346</u>

See accompanying notes to financial statements.

OTTERBEIN UNIVERSITY  
STATEMENTS OF ACTIVITIES  
Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues, gains and other support</b>				
Student tuition and fees	\$ 74,604,956	\$ -	\$ -	\$ 74,604,956
Unfunded scholarships and grants-in-aid	(30,104,117)	-	-	(30,104,117)
Funded scholarships	<u>(2,027,632)</u>	<u>-</u>	<u>-</u>	<u>(2,027,632)</u>
Net student tuition and fees	42,473,207	-	-	42,473,207
Organized activities related to instruction	676,123	-	-	676,123
Private gifts and grants	1,972,675	359,715	1,344,913	3,677,303
Government grants and contracts	1,604,528	-	-	1,604,528
Investment draw designated for current operations	1,356,782	2,916,749	-	4,273,531
Other	918,134	-	-	918,134
Auxiliary enterprises	10,941,714	-	-	10,941,714
Net assets released from restrictions	<u>7,930,065</u>	<u>(7,930,065)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains and other support	67,873,228	(4,653,601)	1,344,912	64,564,539
<b>Operating expenses</b>				
Instruction	28,842,679	-	-	28,842,679
Academic support	6,010,813	-	-	6,010,813
Student services	10,272,088	-	-	10,272,088
Public services	610,483	-	-	610,483
Institutional support	11,887,886	-	-	11,887,886
Auxiliary enterprises	<u>7,261,529</u>	<u>-</u>	<u>-</u>	<u>7,261,529</u>
Total operating expenses	<u>64,885,478</u>	<u>-</u>	<u>-</u>	<u>64,885,478</u>
<b>Change in net assets from operating activities</b>	2,987,750	(4,653,601)	1,344,913	(320,938)
<b>Non-operating activities</b>				
Investment return in excess (deficit) of amounts designated for current operations	(86,463)	(1,651,928)	28,911	(1,709,480)
Loss on advance refunding of bonds	(538,944)	-	-	(538,944)
Unrealized gains (loss) on perpetual trusts held by others	-	-	(20,685)	(20,685)
Change in value of split-interest agreements	<u>(22,605)</u>	<u>-</u>	<u>(15,605)</u>	<u>(38,210)</u>
Change in net assets from non-operating activities	<u>(648,012)</u>	<u>(1,651,928)</u>	<u>(7,379)</u>	<u>(2,307,319)</u>
<b>Change in net assets</b>	2,339,738	(6,305,529)	1,337,534	(2,628,257)
Net assets at beginning of year	<u>106,183,735</u>	<u>37,996,922</u>	<u>31,724,946</u>	<u>175,905,603</u>
<b>Net assets at end of year</b>	<u>\$ 108,523,473</u>	<u>\$ 31,691,393</u>	<u>\$ 33,062,480</u>	<u>\$ 173,277,346</u>

See accompanying notes to financial statements.

OTTERBEIN UNIVERSITY  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (8,343,835)	\$ (2,628,257)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	4,055,128	3,805,736
Amortization for bond issuance costs	26,998	31,420
Net realized and unrealized (gains) losses on investments	3,434,999	(1,473,146)
Change in beneficial interest in perpetual trusts and annuities	125,101	58,894
Loss on advance refunding	-	29,261
Contributions and investment income received restricted for long-term investment	(1,434,613)	(2,051,327)
Changes in operating assets and liabilities		
Accounts and grants receivable	(233,014)	215,482
Contributions receivable	(114,705)	642,571
Prepaid expenses and other assets	(23,165)	183,412
Receivable from charitable remainder trusts	(47,292)	611,390
Accounts payable	1,096,965	(798,030)
Accrued liabilities	(368,991)	101,621
Unearned tuition, fees and other deposits	(32,529)	(390,293)
Advances from federal government for student loans	31,293	155,724
Net cash from operating activities	<u>(1,827,660)</u>	<u>(1,505,540)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(7,756,457)	(4,619,793)
Purchase of investments	(18,763,838)	(18,630,084)
Proceeds from sales and maturities of investments	21,841,802	19,129,318
Student loans issued	(339,465)	(772,735)
Proceeds from loan collections	475,023	627,985
Net cash from investing activities	<u>(4,542,935)</u>	<u>(4,265,309)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions and investment income restricted for:		
Investment in endowment	875,343	1,809,402
Investment in property and equipment	519,479	216,037
Income restricted for long-term investment	39,791	25,888
Payments of bond issuance costs	-	(140,317)
Principal payments on indebtedness and early termination fees on bonds	(1,176,940)	(1,390,000)
Proceeds from bond issue	-	650,000
Proceeds from loan issue	3,684,719	-
Payments to annuitants	(54,243)	(52,144)
Net cash from financing activities	<u>3,888,149</u>	<u>1,118,866</u>
Net change in cash and cash equivalents	(2,482,446)	(4,651,983)
Cash and cash equivalents, beginning of year	<u>19,641,260</u>	<u>24,293,243</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 17,158,814</u>	<u>\$ 19,641,260</u>
<b>Supplemental disclosures of noncash financing and investing activities</b>		
Purchases of property and equipment included in accounts payable	\$ 1,381,115	\$ 388,886
Proceeds from bond issue held in escrow to refund 2005 bond issue	-	10,725,000
Cash paid during the year for interest	1,405,708	1,385,708

See accompanying notes to financial statements.



OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY SIGNIFICANT ACCOUNTING POLICIES**

General: Otterbein University (the "University") was founded in 1847 and was incorporated in February 1849 as a not-for-profit organization under the laws of the State of Ohio. The University is an institution of higher education, offering undergraduate and graduate degrees, and is affiliated with the United Methodist Church. The University derives its income from student tuition and fees, investment income, gifts and grants, operation of residence and dining halls, and various related activities. The University has 74 majors leading to Baccalaureate degrees and 8 different Graduate programs. Approximately 3,000 students were enrolled in the University's undergraduate and graduate programs in the fall of the 2015-2016 academic year.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents: The University considers all liquid investments with original maturities of three months or less to be cash equivalents, except for those liquid investments held as part of the University's managed investment portfolio. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market funds.

Restricted Bond Proceeds: The restricted bond proceeds represent the amount obligated to be held for further security of the bonds under the Bond Reserve Requirement in the Trust Agreement.

Accounts Receivable: Accounts receivable are stated at the amount billed to students for tuition, housing and fees, and as adjusted for an allowance for uncollectible accounts. Interest is not charged on delinquent receivables. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due on the first day of the academic term. Accounts past due more than 30 days are considered delinquent. Delinquent receivables are written off when they are turned over to an outside collection agency based on a credit evaluation and specific circumstances of the individual debtor.

Student Loans Receivable: Student loans receivable, which are comprised primarily of receivables under the Federal Perkins Loan Program, are reported at the outstanding principal balances adjusted for an allowance for uncollectible accounts. The repayment period begins after an initial grace period of either six or nine months after the student ceases to be at least a half-time student. Interest income is recorded as monthly or quarterly payments are received.

Investments and Investment Return: Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Realized and unrealized gains and losses on investments are reflected in the Statements of Activities. The net investment return includes interest, dividends, and realized and unrealized gains and losses, less related trustee and manager fees. Net investment return is reflected in the Statements of Activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

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

The University also holds investments for which there are no readily determinable fair values. These investments are recorded based on estimated fair values provided by external investment managers or general partners and adjusted for cash receipts, disbursements and significant known changes in market values of any publicly held securities contained in the underlying portfolio. The University considers the carrying values of these investments to be a reasonable estimate of fair value. Because these investments are not readily marketable and may be subject to withdrawal restrictions, their estimated value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

The University maintains pooled investment accounts for its endowments and funds functioning as endowments. Net investment return from securities in the pooled investment accounts is allocated annually to the individual endowments and other funds based on the relationship of the fair value of each to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment: Property and equipment are stated principally at cost at the date of acquisition or at fair value if acquired by gift. The University typically capitalizes acquisitions that exceed \$5,000 and have a useful life of five years or more. Depreciation is recorded on a straight-line basis over the estimated useful life for each major category of assets as follows:

	<u>Years</u>
Land improvements	10-20
Building and building improvements	20-70
Equipment, furniture and fixtures	5-10
Library books	20

Unearned Tuition, Fees and Other Deposits: Unearned tuition, fees and other deposits include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

Net Asset Classification: Unrestricted net assets are free of donor-imposed restrictions. They result from all revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily restricted net assets consist of gifts or income with donor-imposed restrictions that limit their use for a stipulated time or purpose and for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, trusts, and pledges which have donor-imposed restrictions that do not expire, that require the corpus to be invested in perpetuity and require that only the investment return be made available for program operations in accordance with donor restrictions, or that are stipulated by the donor to be used to provide loans to students.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

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

Split-Interest Agreements: Split-interest agreements include gift annuities, remainder trusts and beneficial interest in perpetual trusts and are recorded at the present value of the projected net future cash flows to be received. Their carrying value, therefore, approximates their fair value.

The carrying value of liabilities for payment to beneficiaries under split-interest agreements is determined based on the present value of the discounted estimated future cash flow. Adjustments to split-interest liabilities resulting from changes in actuarial assumptions or termination of the agreement are reported as change in value of split-interest agreements in the non-operating section of the Statements of Activities.

Contributions: Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, or both, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the length of time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Government Grants: Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes: The University is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. For the years ended June 30, 2016 and 2015, the University had no tax expense with regard to unrelated business income.

Generally accepted accounting principles prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2016 and 2015.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

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

The University would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The University has no amounts accrued for interest or penalties for the years ended June 30, 2016 and 2015. The University does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Functional Allocation of Expenses: The costs of supporting the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Certain costs have been allocated among program and support categories based on the proportion of expenses in each category prior to the allocation.

Subsequent Events: Subsequent events have been evaluated through October 26, 2016, which is the date the financial statements were issued.

Reclassifications: Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on net assets or the change in net assets.

**NOTE 2 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable as of June 30, 2016 and 2015 were due as follows:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Within one year	\$ 15,098	\$ 340,561	\$ 156,605	\$ 512,264
One to five years	<u>7,500</u>	<u>412,607</u>	<u>86,772</u>	<u>506,879</u>
	22,598	753,168	243,377	1,019,143
Less unamortized discount	<u>(86)</u>	<u>(30,472)</u>	<u>(3,012)</u>	<u>(33,570)</u>
Total contributions receivable	<u>\$ 22,512</u>	<u>\$ 722,695</u>	<u>\$ 240,365</u>	<u>\$ 985,573</u>
 <u>2015</u>	 <u>Unrestricted</u>	 <u>Temporarily Restricted</u>	 <u>Permanently Restricted</u>	 <u>Totals</u>
Within one year	\$ 7,338	\$ 179,085	\$ 66,000	\$ 252,423
One to five years	<u>-</u>	<u>471,857</u>	<u>187,940</u>	<u>659,797</u>
	7,338	650,942	253,940	912,220
Less unamortized discount	<u>-</u>	<u>(35,363)</u>	<u>(5,989)</u>	<u>(41,352)</u>
Total contributions receivable	<u>\$ 7,338</u>	<u>\$ 615,579</u>	<u>\$ 247,951</u>	<u>\$ 870,868</u>

The present value of long-term contributions receivable has been determined using discount rates ranging from 0.33% to 5.00% for 2016 and 2015.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 2 - CONTRIBUTIONS RECEIVABLE (Continued)**

Contributions receivable designated or restricted for specific purposes were as follows at June 30:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 264,133	\$ 247,952
Operations	194,124	201,538
Capital improvements	<u>524,718</u>	<u>414,040</u>
	<u>\$ 982,975</u>	<u>\$ 863,530</u>

**NOTE 3 - INVESTMENTS AND INVESTMENT RETURN**

Investments, recorded at fair value, were as follows at June 30:

	<u>2016</u>	<u>2015</u>
Cash and money market mutual funds	\$ 157,377	\$ 472,038
The Commonfund		
Equity funds	60,125,691	62,135,603
Fixed income funds	7,788,246	9,791,807
Hedged strategies and real assets	27,725,017	29,906,727
Other mutual funds	<u>59,918</u>	<u>63,037</u>
	<u>\$ 95,856,249</u>	<u>\$ 102,369,212</u>

Investment return for the years ended June 30, 2016 and 2015 was comprised of the following:

	<u>2016</u>	<u>2015</u>
Investment income	\$ 1,128,704	\$ 1,246,782
Investment fees	(163,222)	(155,877)
Net realized and unrealized gains on investments		
reported at fair value	<u>(3,434,999)</u>	<u>1,473,146</u>
Total investment return	<u>(2,469,517)</u>	<u>2,564,051</u>
Investment return designated for current operations	<u>4,904,790</u>	<u>4,273,531</u>
Investment return less than amounts designated for current operations	<u>\$ (7,374,307)</u>	<u>\$ (1,709,480)</u>

**NOTE 4 - ENDOWMENT**

The University's endowment consists of approximately 400 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). As required by generally accepted accounting principles, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 4 - ENDOWMENT** (Continued)

The University has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by OUPMIFA. In accordance with OUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The charitable purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation or depreciation of investments
- (6) Other resources of the University
- (7) The Investment Policy of the University

The composition of net assets by type of endowment fund at June 30, 2016 and 2015 was:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ (260,973)	\$ 22,439,630	\$ 31,787,416	\$ 53,966,073
Board-designated endowment funds	<u>31,798,205</u>	<u>-</u>	<u>-</u>	<u>31,798,205</u>
Total endowment funds	<u>\$ 31,537,232</u>	<u>\$ 22,439,630</u>	<u>\$ 31,787,416</u>	<u>\$ 85,764,278</u>
 <u>2015</u>	 <u>Unrestricted</u>	 <u>Temporarily Restricted</u>	 <u>Permanently Restricted</u>	 <u>Totals</u>
Donor-restricted endowment funds	\$ (20,745)	\$ 26,365,753	\$ 30,893,238	\$ 57,238,246
Board-designated endowment funds	<u>34,282,463</u>	<u>-</u>	<u>-</u>	<u>34,282,463</u>
Total endowment funds	<u>\$ 34,261,718</u>	<u>\$ 26,365,753</u>	<u>\$ 30,893,238</u>	<u>\$ 91,520,709</u>

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 4 - ENDOWMENT** (Continued)

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 34,261,718	\$ 26,365,753	\$ 30,893,238	\$ 91,520,709
Investment return				
Investment income	298,706	502,834	-	801,540
Net gains/(losses)	<u>(1,385,677)</u>	<u>(1,690,820)</u>	<u>-</u>	<u>(3,076,497)</u>
Total investment return	<u>(1,086,971)</u>	<u>(1,187,986)</u>	<u>-</u>	<u>(2,274,957)</u>
Contributions and additions	300	6,200	894,178	900,678
Mature of split-interest agreements	-	-	-	-
Transfer of endowment underwater deficit	-	-	-	-
Appropriation of endowment assets for expenditure	<u>(1,637,815)</u>	<u>(2,744,337)</u>	<u>-</u>	<u>(4,382,152)</u>
Endowment net assets, end of year	<u>\$ 31,537,632</u>	<u>\$ 22,439,630</u>	<u>\$ 31,787,416</u>	<u>\$ 85,764,678</u>
<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 34,074,363	\$ 32,841,447	\$ 29,083,836	\$ 95,999,646
Investment return				
Investment income	335,174	611,387	-	946,561
Net gains/(losses)	<u>489,987</u>	<u>890,795</u>	<u>-</u>	<u>1,380,782</u>
Total investment return	<u>825,161</u>	<u>1,502,182</u>	<u>-</u>	<u>2,327,343</u>
Contributions and additions	739,163	85,212	1,344,913	2,169,288
Mature of split-interest agreements	-	-	464,489	464,489
Transfer of endowment underwater deficit	(5,405)	5,405	-	-
Appropriation of endowment assets for expenditure	<u>(1,371,564)</u>	<u>(8,068,493)</u>	<u>-</u>	<u>(9,440,057)</u>
Endowment net assets, end of year	<u>\$ 34,261,718</u>	<u>\$ 26,365,753</u>	<u>\$ 30,893,238</u>	<u>\$ 91,520,709</u>

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 4 - ENDOWMENT (Continued)**

During the year ended June 30, 2015, the University released temporarily restricted endowment funds above the spending formula, whose original corpus had originally been held intact, for scholarships in accordance with donor intent.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or OUPMIFA requires the University to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets and aggregated \$260,973 and \$20,745 at June 30, 2016 and 2015, respectively.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor restricted endowment funds the University must hold in perpetuity or for donor specified periods, as well as those board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to produce results that exceed various benchmarks while assuming a reasonable level of investment risk. The University's investment objective for its endowment funds is to provide a long-term rate of return at least 5% greater than the rate of inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraint.

OUPMIFA allows appropriation for expenditure so much of an endowment fund as is prudent for the uses, benefits, purpose, and duration for which an endowment fund is established. The University has a spending policy of appropriating for distribution each year a combination of last year's spending adjusted for inflation (70% weight) and 5% of the average market value of the portfolio (30% weight). In establishing this policy, the University considered the long-term expected total return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

**NOTE 5 - CHARITABLE REMAINDER TRUSTS**

The University is the beneficiary under various charitable remainder trusts for which it is not the trustee. The University's beneficial interest in these trusts is recorded at fair value, measured by the present value of the estimated expected future benefits to be received when the trust assets are distributed. At June 30, 2016 and 2015, the University's beneficial interest in remainder trusts administered by third parties was \$674,836 and \$627,544, respectively, and the weighted average discount rates used in determining these balances were 1.29% and 2.35%, respectively.

---

(Continued)



OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 6 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The University is the beneficiary under certain perpetual trusts administered by third parties. Under the terms of each trust, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never to receive the assets held in trust. The estimated value of the expected future cash flows was \$651,354 and \$700,081 at June 30, 2016 and 2015, respectively, which represents the University's share of the fair value of the trust assets at year end. The income from these trusts for 2016 and 2015 was \$33,838 and \$27,721, respectively.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 8,741,225	\$ 8,741,225
Land improvements	4,740,564	4,642,700
Buildings	94,851,696	94,851,696
Building improvements	18,458,722	13,531,759
Machinery and equipment	20,141,862	18,444,411
Library books	5,704,047	5,624,121
Construction in progress	<u>4,182,996</u>	<u>3,228,743</u>
	156,821,112	149,064,655
Less accumulated depreciation and amortization	<u>(62,884,141)</u>	<u>(58,835,261)</u>
Total property and equipment, net	<u>\$ 93,936,971</u>	<u>\$ 90,229,394</u>

Construction commitments related to the construction in progress at June 30, 2016 are approximately \$3,580,931.

**NOTE 8 - ANNUITIES PAYABLE**

The University has been the recipient of several gift annuities which require future payments to the donors or their named beneficiaries. The assets received from a donor are recorded at fair value. The University has recorded a liability at June 30, 2016 and 2015 of \$374,437 and \$352,306, respectively, which represents the present value of the future annuity and trust obligations. The liability has been determined using discount rates ranging from 1.2% to 9.6% and applicable mortality tables.

**NOTE 9 - LINE OF CREDIT**

The University has a \$5,000,000 unsecured revolving bank line of credit which expires June 24, 2017. As of June 30, 2016 and 2015, no funds had been borrowed against this line.

**NOTE 10 - INDEBTEDNESS**

The University has financed certain buildings and facilities through revenue bonds which are structured as long-term leases with the State of Ohio Higher Educational Facility Commission ("Commission"). Under the terms of the indentures, the revenues from the respective facilities are pledged as security as well as the full faith and credit of the University. Under the structure of the financing, the University leases these buildings and facilities to the Commission which, in turn, leases them back to the University. The University makes lease payments to the Commission which are equal to the debt service on the bonds.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 10 - INDEBTEDNESS (Continued)**

Indebtedness at June 30 consisted of the following:	<u>2016</u>	<u>2015</u>
\$11,270,000 Revenue Bonds of 2007, interest rates on bonds due in 2016 of 4.15% steadily increasing to 5.00% for those bonds coming due in 2038. The University is required to pay amounts totaling approximately \$710,000 annually for principal and interest payments due.	\$ 9,565,000	\$ 9,810,000
\$13,455,000 Revenue Bonds of 2008, interest rates on bonds due in 2016 of 4.50% steadily increasing to 5.50% for those bonds coming due in 2029. The University is required to pay amounts totaling approximately \$1,100,000 annually for principal and interest payments due.	9,765,000	10,285,000
\$7,800,000 Variable Rate Revenue Bonds of 2008, variable interest rates approximating .15% during 2016 and .07% during 2015, final maturity in 2029. The University is required to pay amounts totaling approximately \$550,000 annually for principal and interest payments due.	5,960,000	6,335,000
\$11,375,000 Revenue Bonds of 2015, with a fixed interest rate of 3.50% for those bonds coming due in 2035. The University is required to pay approximately \$830,000 annually for principal and interest payments due with principal payments beginning in 2017.	11,375,000	11,375,000
Ohio Development Services Agency Energy Loan. The loan has an interest rate of 1.0% over a term of fifteen years. The University is required to pay approximately \$290,000 annually for principal and interest payments due.	3,647,779	-
Unamortized discount on 2008 Revenue Bonds	(68,914)	(74,657)
Unamortized discount on 2007 Revenue Bonds	<u>(10,615)</u>	<u>(11,120)</u>
Total indebtedness	<u>\$ 40,233,250</u>	<u>\$ 37,719,223</u>

The Variable Rate Revenue Bonds of 2008 bear interest at a weekly variable rate. The rate at time of issue was 1.5%. The weekly variable rate is determined by the Remarketing Agent for the bonds based upon current transactions in comparable securities and prevailing financial market conditions, but in no event greater than 10%. The Remarketing Agent shall also use its best efforts to remarket bonds purchased upon demand of the owners thereof pursuant to the terms of the bonds.

The 2008 Variable Rate Variable Bonds are secured by an Irrevocable Direct Pay Letter of Credit. The Letter of Credit agreement in the amount of \$6,016,289 was amended July 15, 2016 and expires July 15, 2017. Repayments under the Letter of Credit are secured by a separate Reimbursement Agreement which, in turn, is secured by a Pledge and Security Agreement with the Bank. Under the terms of the Reimbursement Agreement, the University is subject to a number of restrictive covenants and must maintain certain financial ratios.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 10 - INDEBTEDNESS (Continued)**

In the event that any of the 2008 Variable Rate Revenue Bonds are at any time unable to be remarketed and the University is required to draw on its associated Letter of Credit, repayment of such Liquidity Drawings would be due no later than the earliest to occur of a remarketing of the bonds, 367 days from the Liquidity Drawing or the expiration date of the Letter of Credit agreement. The University would also be required to pay interest at a rate equal to the Base Rate for the first 120 days following a Liquidity Drawing and at a rate equal to the Base Rate plus 1% thereafter. The Base Rate, as defined in the Letter of Credit, is the greater of (a) 7.5%; (b) the issuing Bank's prime rate; or (c) the adjusted one-month LIBOR rate. If the loan pursuant to the Liquidity Drawing is not paid in full by the due date, then the University would be obligated to immediately reimburse the Bank in the amount of such Liquidity Drawing and to pay interest to the Bank at a rate per annum equal to the Base Rate plus 4%.

The combined aggregate annual maturities for indebtedness as of June 30, 2016 were as follows:

Fiscal year ending June 30

2017	\$ 2,002,344
2018	1,935,656
2019	2,002,615
2020	2,074,588
2021	2,151,576
Thereafter	<u>30,145,999</u>
Net unamortized bond discounts	<u>(79,528)</u>
	<u>\$ 40,233,250</u>

Interest expense for the years ended June 30, 2016 and 2015 totaled \$1,418,232 and \$1,379,363, respectively.

The University is subject to certain covenant provisions with which the University has complied at June 30, 2016 and 2015.

**NOTE 11 – FINANCING RECEIVABLES**

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs, other loan programs, or institutional resources. At June 30, 2016 and 2015, student loans represented 1.4% of total assets.

At June 30, student loans consisted of the following:

	<u>2016</u>	<u>2015</u>
Federal government programs	\$ 2,654,711	\$ 2,811,967
Institutional and other	<u>796,597</u>	<u>775,021</u>
	3,451,308	3,586,988
Less: Allowance for doubtful accounts:		
Beginning of year	(496,500)	(496,500)
Decreases (increases)	-	-
Write-offs	<u>-</u>	<u>-</u>
End of year	<u>(496,500)</u>	<u>(496,500)</u>
Student loans receivable, net	<u>\$ 2,954,808</u>	<u>\$ 3,090,488</u>

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 11 – FINANCING RECEIVABLES (Continued)**

The University participates in the Federal Perkins Loan Program and Nurse Faculty Loan Program which are revolving loan programs. The availability of funds for loans under the programs are dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government for this program of \$2,083,474 and \$2,052,180 at June 30, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as liabilities in the Statements of Financial Position. Outstanding loans cancelled under the program results in a reduction of the funds available for loans and a decrease in the liability to the government.

At June 30, 2016 and 2015, approximately \$775,599 and \$773,998, respectively, were past due under the student loan program. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per loan terms. Institutional and other loan balances are written off only when they are deemed to be permanently uncollectible.

**NOTE 12 - NET ASSETS**

Temporarily restricted net assets were available for the following purposes or in future periods as of June 30:

	<u>2016</u>	<u>2015</u>
Faculty and academic program support	\$ 4,096,562	\$ 3,850,805
Scholarships	906,864	1,100,724
Capital improvements	371,953	2,083,491
Net accumulated realized and unrealized gains	20,072,728	24,028,829
Charitable remainder trusts and unitrusts	<u>674,836</u>	<u>627,544</u>
Total temporarily restricted net assets	<u>\$ 26,122,943</u>	<u>\$ 31,691,393</u>

Permanently restricted net assets were available for the following purposes or in future periods as of June 30:

	<u>2016</u>	<u>2015</u>
Investment in perpetuity, the income of which is expendable to support:		
Scholarships and loans	\$ 23,528,727	\$ 22,850,450
Faculty and academic program support	6,238,749	6,094,772
Student prizes and awards	1,907,701	1,866,571
General operations	1,845,535	1,888,418
Student loans	<u>379,443</u>	<u>362,269</u>
Total permanently restricted net assets	<u>\$ 33,900,155</u>	<u>\$ 33,062,480</u>

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 12 - NET ASSETS (Continued)**

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

	<u>2016</u>	<u>2015</u>
Faculty and academic program support	\$ 469,931	\$ 607,768
Scholarships	1,905,204	7,184,398
Capital improvements	2,169,215	16,787
Student prizes and awards	<u>126,011</u>	<u>121,112</u>
Total	<u>\$ 4,670,361</u>	<u>\$ 7,930,065</u>

**NOTE 13 - DEFINED CONTRIBUTION RETIREMENT PLAN**

The University maintains a defined contribution retirement plan administered by Teachers Insurance and Annuity Association/University Retirement Equities Fund (TIAA/CREF) or the Vanguard Family of Mutual Funds. The plan covers substantially all full-time faculty and administrative personnel working at least one-half time. Employees may participate in the plan any time after hire. Effective January 2015, employees are eligible upon hire to receive University contributions. The University also provides for voluntary participation in a tax deferred retirement savings program. University contributions to the retirement plan for years ended June 30, 2016 and 2015 were approximately \$1,957,219 and \$1,817,097, respectively. Participants in the University's retirement programs are fully vested. The University has no unfunded pension obligations since its retirement plan is funded on a current basis.

**NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES**

FASB guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the University's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs supported by little to no market activity that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying Statements of Financial Position, as well as the general classification of such assets pursuant to the valuation hierarchy.

---

(Continued)

**NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)**

Cash Equivalents: The University's cash equivalents consist of money market funds that have quoted market prices available in an active market and are classified within Level 1 of the valuation hierarchy.

Restricted Bond Proceeds: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds.

Investments: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the hierarchy. For investments in pooled funds that have sufficient activity or liquidity within the fund, fair value is determined using the net asset value (or its equivalent) provided by the fund and are classified within Level 2 of the hierarchy. Level 2 securities include Commonfund equity fund securities and fixed income fund securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Hedge funds including mainly private capital investments have observable inputs and market activity that allow for pricing based on the underlying market prices of the items in the fund adjusted for information developed by management for historical and current performance of the underlying funds, liquidity and credit premiums required by a market participant and financial trend analysis with respect to the overall fund compared to benchmark performance ratios (Level 2 inputs). The hedge funds include four separate funds with one manager that have strategies that include long-term appreciation of principal, hedging current market fluctuations for current income, achieving superior risk-adjusted total returns, and generating event driven returns. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Redemption restrictions range from zero to three months at June 30, 2016. There were no unfunded commitments at June 30, 2016 and 2015.

The University owns real assets that are valued using Level 3 inputs. University management and the Investment Committee review appraisals, recent transactions, and other information (market approach) to determine the fair value. The main investment objective is to engage in a diversified portfolio and investment strategy.

The global distressed funds consist primarily of fund of funds and private equity funds that do not generally have an active market. University management and the Investment Committee review the valuations of the underlying investments and returns in comparison to industry benchmarks and other information (income approach). Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). Redemption restrictions are greater than three months. There are no unfunded commitments on these funds. The investment objectives of the global distressed fund are (1) manage risk through an intensive quantitative and qualitative due diligence and monitoring process and (2) achieve superior risk-adjusted returns by engaging in a diversified investment strategy utilizing a multi-manager approach to invest internationally.

For other investments for which there is no active market, University management and the Investment Committee review the valuations and returns in comparison to industry benchmarks and also consider recent transactions, earnings forecasts, future cash flows and other information (income approach). The market value of the securities is highly sensitive to assumption changes and market volatility (Level 3 inputs). At June 30, 2016 and 2015, these investments consist solely of limited partnerships. There are no redemption options on these funds. The partnerships are scheduled to terminate in 2020-2023. There are no unfunded commitments on these funds at June 30, 2016. The investment objectives of these funds are to (1) obtain long term growth capital and (2) they offer investors an opportunity to access the private equity market through a much smaller commitment than would be feasible investing directly in funds.

---

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)**

The fair values of U.S. Government securities, mutual funds, and common stock investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). The fair value of Level 2 corporate bonds investments are determined utilizing quoted market prices of similar securities with similar due dates.

Receivables from Charitable Remainder Trusts: The fair value of receivables from charitable remainder trusts is measured based on quoted prices of the underlying assets that were held by the trustees in conjunctions with a valuation model that calculated the estimated present value of expected future benefits to be received. There are restrictions on these assets that do not allow the University redemption rights. Therefore, the receivables are classified within Level 3 of the hierarchy.

Beneficial Interest in Perpetual Trusts: The fair value of beneficial interest in perpetual trusts is primarily based on the fair values of the underlying investments held by these trusts and is classified within Level 3 of the hierarchy due to restrictions on these assets that do not allow redemption rights.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>				
Money market mutual funds	\$ 157,377	\$ 157,377	\$ -	\$ -
Commonfund equities	60,125,691	-	52,137,239	7,988,452
Commonfund limited partnerships	-	-	-	-
Commonfund global distressed	-	-	-	-
Commonfund fixed income	7,788,246	-	7,788,246	-
Commonfund hedged strategies and real assets	27,725,017	-	23,615,205	4,109,812
Other mutual funds	<u>59,918</u>	<u>59,918</u>	<u>-</u>	<u>-</u>
Total investments	95,856,249	217,295	83,540,690	12,098,264
Restricted bond proceeds	1,204,562	1,204,562	-	-
Receivable from charitable remainder trusts	674,836	-	-	674,836
Beneficial interest in perpetual trusts	651,354	-	-	651,354

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)**

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2015</u>				
Money market mutual funds	\$ 472,038	\$ 472,038	\$ -	\$ -
Commonfund equities	62,135,603	-	55,913,650	-
Commonfund limited partnerships	-	-	-	4,016,169
Commonfund global distressed	-	-	-	2,205,784
Commonfund fixed income	9,791,807	-	9,791,807	-
Commonfund hedged strategies and real assets	29,906,727	-	26,365,105	3,541,622
Other mutual funds	<u>63,037</u>	<u>63,037</u>	<u>-</u>	<u>-</u>
Total investments	102,369,212	535,075	92,070,562	9,763,575
Restricted bond proceeds	1,204,441	1,204,441	-	-
Receivable from charitable remainder trusts	627,544	-	-	627,544
Beneficial interest in perpetual trusts	700,081	-	-	700,081

The following is reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant observable (Level 3) inputs:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Charitable Remainder Trusts	Perpetual Interests in Perpetual Trusts	Limited Partnerships	Global Distressed	Real Assets	Total
Beginning balance, July 1, 2015	\$ 627,544	\$ 700,081	\$ 4,016,169	\$ 2,205,784	\$ 3,541,622	\$ 11,091,200
Total gains or losses (realized/unrealized) included in earnings	-	-	820,052	69,122	74,873	964,047
Other changes in fair value	47,292	(48,728)	(125,946)	48,308	13,858	(65,216)
Gains (losses) on sale of securities	-	-	-	-	-	-
Purchases	-	-	745,000	770,000	479,459	1,994,459
Capital distributions	-	-	(221,637)	(338,400)	-	(560,037)
Ending balance, June 30, 2016	<u>\$ 674,836</u>	<u>\$ 651,353</u>	<u>\$ 5,233,638</u>	<u>\$ 2,754,814</u>	<u>\$ 4,109,812</u>	<u>\$ 13,424,453</u>

(Continued)



OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Charitable Remainder Trusts	Perpetual Interests in Perpetual Trusts	Limited Partnerships	Global Distressed	Real Assets	Total
Beginning balance, July 1, 2014	\$ 1,238,934	\$ 720,766	\$ 2,376,591	\$ 2,772,854	\$ 2,759,984	\$ 9,869,129
Total gains or losses (realized/unrealized) included in earnings						
Other changes in fair value	(611,390)	(20,685)	990,432	304,334	15,638	678,329
Gains (losses) on sale of securities	-	-	-	-	-	-
Purchases	-	-	649,146	-	766,000	1,415,146
Capital distributions	-	-	-	(871,404)	-	(871,404)
Ending balance, June 30, 2015	<u>\$ 627,544</u>	<u>\$ 700,081</u>	<u>\$ 4,016,169</u>	<u>\$ 2,205,784</u>	<u>\$ 3,541,622</u>	<u>\$ 11,091,200</u>

Unrealized gains generated from Level 3 investments still held at June 30, 2016 and 2015, and reported in the University's Statements of Activities were \$964,047 and \$678,329, respectively.

Other Financial Instruments: The University's other financial instruments include cash and cash equivalents, accounts and grants receivable, contributions receivable, student loans receivable, accounts payable, accrued liabilities, annuities payable and indebtedness.

For cash and cash equivalents, accounts and grants receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value because of the short maturity of these items. The carrying amount of contributions receivable, student loans receivable, and annuities payable are a reasonable estimate of the corresponding fair value.

The carrying amount of the outstanding indebtedness of the University was \$40,233,250 and the fair value was \$41,701,610 at June 30, 2016. The carrying amount of the outstanding indebtedness of the University was \$37,719,223 and the fair value was \$39,554,710 at June 30, 2015. Fair value is determined based on the borrowing rates currently available to the University for debt with similar terms and maturities.

**NOTE 15 - SIGNIFICANT CONCENTRATIONS AND CONTINGENCIES**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

(Continued)

OTTERBEIN UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

---

**NOTE 15 - SIGNIFICANT CONCENTRATIONS AND CONTINGENCIES (Continued)**

Department of Education: The University receives significant financial assistance from governmental agencies in the form of grants and contracts. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in the grant and contract agreements and are subject to audit by grantor agencies. The Department of Education performed a review in fiscal year 2016 which resulted in provisional certification through June 30, 2018. Any disallowed costs resulting from this review could become a liability of the University. The amount of expenditures that may be disallowed by the Department of Education or any other grantor agency cannot be determined at this time. The University expects such amounts, if any, to be immaterial.

Litigation: In 1962, the University received a gift of approximately 111 acres of land that had previously been the site of manufacturing and disposal operations for the military during World War II. Coterminous with receipt of the gift, the University sought the assistance of the U.S. Joliet Arsenal to supervise the decontamination and demilitarization of live ordnance that had been disposed at the site.

Subsequent environmental assessments of the site revealed the presence of additional heavy metal contamination and debris from military products on approximately 40 acres of the site. The University obtained and has recorded a "covenant not to sue" that was issued by the Ohio EPA pursuant to its Voluntary Action Program on the remaining approximately 70 acres of the site allowing the University to use these 70 acres for expansion. Although there has been no enforcement action initiated by either state or federal environmental agencies, future use of the adjoining approximately 40 acres of the land is likely to be limited unless remediation activities are conducted at the site. Should remediation be mandated on certain portions of the property, then it is estimated that remedial costs of approximately \$3.8 million would be incurred. The University has vigorously pursued claims for contamination of the property against various federal agencies. On July 22, 2008, the University filed suit against the United States Department of Defense in the United States District Court, Southern District of Ohio for cost recovery of all environmental response costs. On October 24, 2008, the University and the United States Department of Defense were tentatively identified as potentially responsible parties ("PRPs") by the Ohio Attorney General in the investigation and cleanup of the approximately 40 acres. In August 2012, the University received approximately \$427,000 from the U.S. Department of Defense as reimbursement for their share of costs incurred related to previous phases of the study. In accordance with generally accepted accounting principles, the University recorded a liability for an estimated portion of remediation costs that might not be recovered through settlement negotiations with the U. S. government. It is reasonably possible that the estimate may change in the near term. Furthermore, in accordance with generally accepted accounting principles, contamination cleanup costs that improve the property from its original acquisition state are capitalized as part of the property's cost.

The University is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would materially change this estimate.

Contributions: Approximately, 7% and 29% of contributions were received from four and three donors in 2016 and 2015, respectively.

**NOTE 16 – SUBSEQUENT EVENT**

The University plans to issue \$18.3 million of Higher Educational Facility Revenue Bonds (Otterbein University 2016 Project) in fiscal year 2017. The proceeds of this bond issuance will be used to refund the 2007 and 2008A fixed rate bonds.