

UNIVERSITY OF DAYTON

Consolidated  
Financial Report

2018-19



University of  
Dayton





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# University of Dayton

AT A GLANCE



**#11** EVERYONE PLAYS INTRAMURAL SPORTS



**#1**

CATHOLIC UNIVERSITY FOR SPONSORED ENGINEERING R&D

**#10**

BEST-RUN COLLEGE



**10,800+**

STUDENTS (UNDERGRADUATE, GRADUATE, LAW)



**#12**

HAPPIEST STUDENTS



SUCCESS RATE



**#1**

NATIONALLY FOR FEDERALLY SPONSORED MATERIALS ENGINEERING R&D



**TOP 20** ENTREPRENEURSHIP PROGRAM

**17**

DIVISION I TEAMS



**#20**

BEST SCHOOL FOR INTERNSHIPS



**#15** STUDENTS LOVE THEIR COLLEGE



## A MESSAGE FROM THE PRESIDENT



In fiscal year 2018-19, the University of Dayton completed another year of thoughtful financial stewardship by investing in our academic and research missions, advancing mutually beneficial community engagement, and promoting fiscal sustainability in alignment with our vision and Catholic, Marianist identity.

As the entire national higher education sector continues to face market pressures and other challenges, the University of Dayton continues our exceptional growth and development. We welcomed the largest undergraduate student body in University history and attracted an increased number of talented, academically gifted students from around the country and the world. As we work toward higher quality through greater campus diversity and inclusion, we were pleased to see gains in socioeconomic diversity and underrepresented domestic racial and ethnic populations.

Our six-year graduation rate reached 81.5%, setting another record. We are incredibly proud of this number as it represents the first class to enroll under the University's transparent tuition plan and compares favorably with graduation rates from selective national universities. It is evidence that our innovative tuition plan is achieving a key goal — helping our students graduate on time with less debt.

The University of Dayton achieved another year of record research in FY19 with \$170.5 million in sponsored research revenues. According to the most recent data available from the National Science Foundation, UD performs more sponsored materials research and development than any other college or university in the country and is the top Catholic university in many sponsored research categories, including sponsored engineering expenditures.

The University also completed another successful fundraising year with \$45.5 million in gifts, representing a solid vote of confidence in the direction of the University and its future from our alumni, faculty, staff, students, and friends. In addition to several multimillion dollar gifts during the year, on One Day, One Dayton — the first one-day giving campaign in the University's history — we overwhelmingly exceeded our goals for total number of gifts and dollars.

Those gifts helped boost our endowment to more than \$600 million for the first time in University history, increasing our ability to recruit and retain high-achieving students by making a UD education more accessible and affordable to all.

To maintain our reputation as a top-tier Catholic research university, we continued to invest in capital projects to offer premier learning, living, teaching, and working facilities for our faculty, staff, and students.

The long-awaited redevelopment of the historic downtown Dayton Arcade moved closer to reality with our 10-year commitment as anchor tenant to establish a center for entrepreneurship support and education; we expect to begin to occupy that space in the second half of 2020. Plans also continue for the development of onMain: Dayton's Imagination District, a signature neighborhood adjacent to campus that will attract jobs, economic development, and innovation to the site of the former county fairgrounds.

As the University of Dayton enters its 170th year in 2020, I am proud to collaborate with our talented administration, faculty, and staff, our generous friends and alumni, our community-minded partners, and our amazing, future-focused students in nurturing and supporting this very special University, committed to the common good in the spirit of our Catholic, Marianist mission.

A handwritten signature in black ink that reads "Eric F. Spina". The signature is fluid and cursive, with a horizontal line underneath the name.

Eric F. Spina  
President







2018-19

# **UNIVERSITY HIGHLIGHTS**



## A BOUNDLESS SPIRIT

As a Catholic, Marianist research university, our mission fosters curiosity and creativity. We readily adapt and change with the times to use our knowledge to make an impact. Above all, we offer a high-value, high-quality education on a campus that's known for its hospitality and inclusiveness.







## STUDENT MATTERS

With the help of our no-fee, fixed-price tuition plan, UD's six-year graduation rate jumped to 81.5%. The first-year class set new records for diversity and academic talent, attracting students who add greater socioeconomic, racial and ethnic diversity to campus.



# University of Dayton







# University of Dayton Research Institute



## RESEARCH PROWESS

Led by the University of Dayton Research Institute, sponsored research hit a new record of \$170.5 million, helping to diversify the University's revenue and provides hands-on learning opportunities for students.







## UNDER CONSTRUCTION

We completed the second phase of a \$76.2-million transformation of UD Arena, installed three solar arrays, completed a major library renovation, constructed a new building for community offices, and moved ahead with the Arcade and onMain developments, along with a \$13.5 million renovation for the computer science department.







2018-19

# **FINANCIAL HIGHLIGHTS**



## COMPARATIVE SUMMARY INFORMATION

(ALL DOLLARS IN THOUSANDS)

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Endowment - Market	500,407	473,123	524,186	567,311	603,105
Physical Plant - Carrying Value (Excluding Depreciation)	958,148	1,003,221	1,063,554	1,116,782	1,179,842
Physical Plant - Insurable Value	1,146,229	1,167,164	1,137,027	1,182,214	1,238,257
Long Term Debt	407,078	394,690	380,193	441,907	393,819
Enrollment - Full Time - Undergraduate	7,918	8,226	7,896	8,095	8,225
Enrollment - Law School	294	267	279	269	318
Enrollment - Graduate School	2,520	2,318	2,196	2,115	2,307
Total Enrollment - Full and Part Time	11,368	11,271	10,118	10,225	10,560
Degrees Awarded - Undergraduate	1,924	2,055	2,036	2,091	2,173
Degrees Awarded - Graduate	951	961	939	867	897



# MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Year Ended June 30, 2019

## Introduction

The University of Dayton continues to maintain strong financial positioning and a continued cycle of investment, even during a time of increasing challenge for private colleges and universities in the United States. I am pleased to report that we have continued to balance our investments in the University with another year of solid operating performance. Our top-line revenues grew by nearly 7% from last year to \$595.5 million, while the unrestricted operating margin of 5.2% creates more than \$31 million available for reinvestment into our faculty, students and staff.

President Spina highlighted growth in our endowment to more than \$600 million at the end of the fiscal year. Along with other favorable changes in unrestricted long-term assets, our net assets grew by over \$70 million to \$1.23 billion. On the other side of the balance sheet, liabilities contracted in several categories, with overall liabilities decreasing from \$614.1 million to \$540.2 million. This type of balance sheet strengthening allows more favorable views from the ratings agencies as our wealth and leverage ratios improved.

The following discussion and analysis provides an overview of the financial position of the University of Dayton for the year ended June 30, 2019 with comparative information for the previous year ended June 30, 2018. This overview has been prepared by management and should be read in conjunction with the audited financial statements and the notes that follow this section.



Andrew T. Horner  
Executive Vice President for Business and Administrative Services

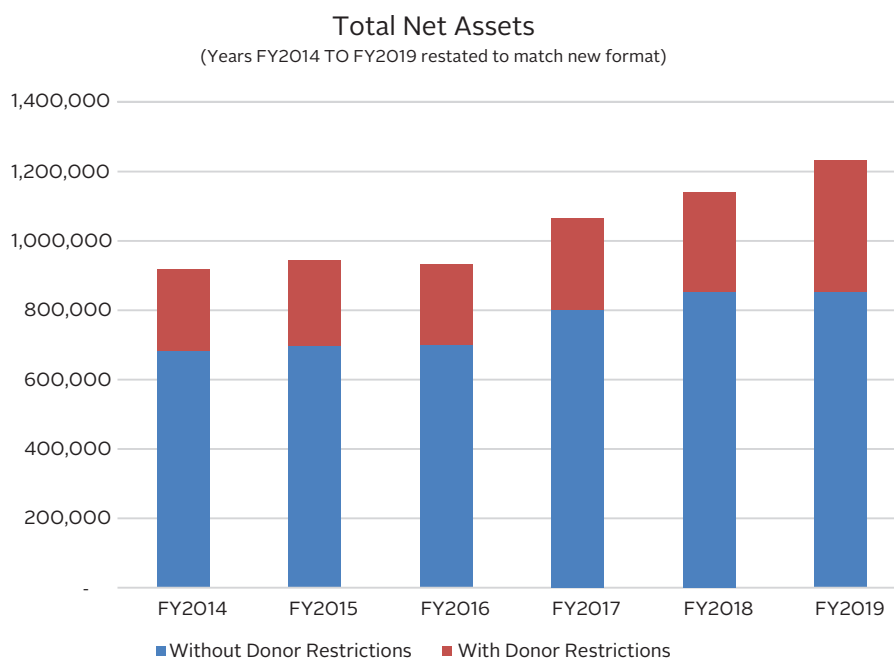
## Financial Position

- The University's total assets remained level at \$1.77 billion with the overall balance sheet strengthening. While investments show a decrease due to the draw down of \$43.1 million of 2018A bond proceeds, investment returns were strong for the year at 6.0%. Ongoing renovations and construction on new facilities increased land, building and equipment by \$69.5 million. Notes receivable experienced a significant decrease due to the unwind of the New Market Tax Credits on the 111 River Park entity. Further description of this unwind can be found in Footnote 9 of the accompanying financial statements.
- Total liabilities decreased by \$73.9 million. Indebtedness decreased by \$48.1 million dollars. Much of this is due to the New Market Tax Credit unwind as well as our normal debt principal payments. Updates to our post-retirement medical plans resulted in a decrease of \$17.2 million to our post-retirement benefit obligations.
- Total net assets grew by \$70.4 million in 2019 from \$1.160 billion to \$1.230 billion. Net assets without donor restrictions increased by \$64.4 million compared to \$69.4 million in 2018. This increase was due to operating returns of \$31.2 million plus non-operating gains on investments, gains on debt extinguishment, and post-retirement benefit obligations net of a loss on the interest rate swap agreements. Net assets with donor restrictions increased by \$5.8 million. The \$20.7 million released from restrictions for the Arena transformation was offset by additional pledge activity and strong investment returns on the true endowments. This compared to an increase of \$24.8 million in 2018.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

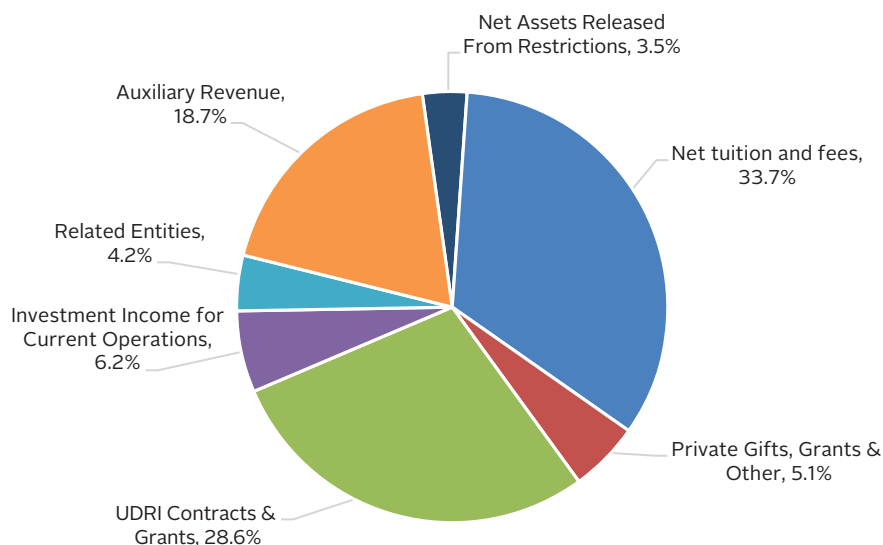
For Fiscal Year Ended June 30, 2019



## Operating Performance

Total consolidated operating revenues grew from \$571.6 million to \$594.4 million in 2019. The University's major revenue components are summarized below:

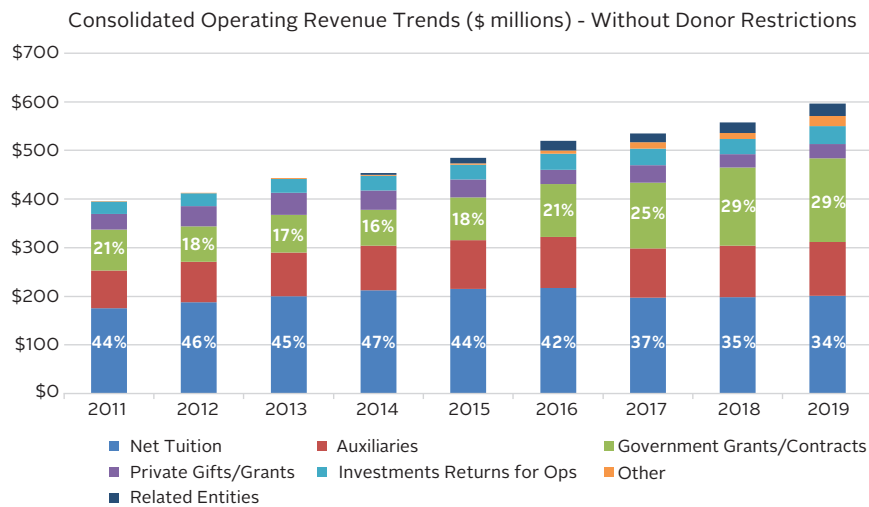
Total Consolidated Operating Revenue



- Net tuition and fee revenue increased modestly year over year compared to relatively little growth in tuition revenue in the prior year. As our UDGlobal programs and the 2U online programs are establishing themselves, we saw 17.1% growth in our graduate tuition revenue and 7.9% growth in law tuition revenue over 2018.
- Government grant and contract revenue grew from \$149.1 million in 2018 to \$164.7 million in 2019. The Research Institute recorded \$15.6 million (10.4%) revenue growth over 2018. Removing the accounting adjustment recognized in 2018, contract revenue grew \$25.1 million or 18.0%.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

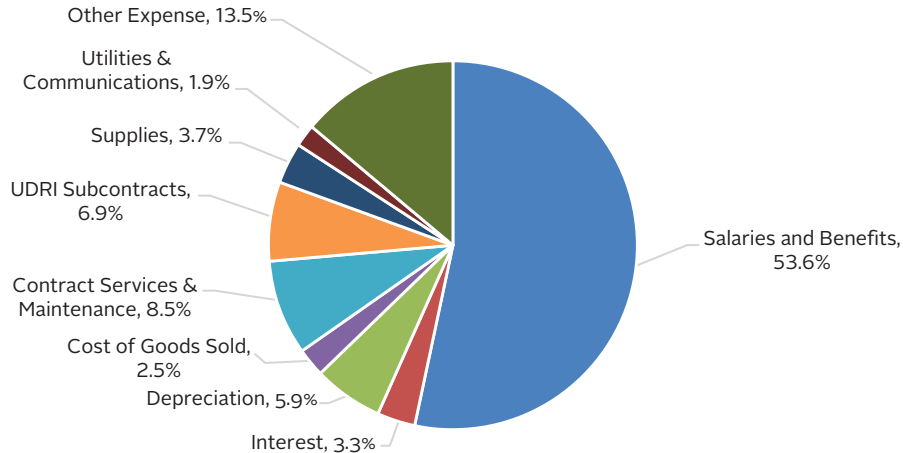
For Fiscal Year Ended June 30, 2019



The University's revenue diversification strategy can be viewed in some of the trends in the above chart. Revenue from sponsored research has increased as a proportion of total revenues from 16% in 2014 to 29% in 2019. Similarly, the reliance on net tuition revenue has decreased from 47% to 34% over the same period. Modest proportional revenue growth can also be seen in auxiliaries and some of our consolidated operations, including the facility that houses GE Aviation and the Marriott at the University of Dayton.

Operating expenses for the University grew by 7.6% from \$524.5 million to \$564.2 million in 2019. The major components are summarized below:

## Total Consolidated Operating Expenditures



- Salaries and benefits grew by 6.6% to \$302.2 million in 2019. This reflects merit-based salary increases as well as strategic head count increases in advancement, online programs, research and various faculty and staff positions to support compliance and student success.
- Contract services and maintenance grew to \$87.0 million in 2019 from \$78.1 million in 2018. \$8.5 million of this increase was due to increased sub-award activity in the Research Institute.
- Supplies increased from \$18.4 million to \$21.0 million. This increase was attributable to the increased activity in the Research Institute. There was a modest decrease in supply expenditures across the rest of campus.
- Other expenditures increased \$4.0 million. Many categories showed decreases with increases to travel, graduate tuition remission, postage and loss on disposal of fixed assets due to current renovations.
- Many expense areas experienced minimal growth in the year due to strategic sourcing initiatives and Common Good spending practices. Strategic sourcing reduced expenditures in the areas of supplies, printing, photocopying and some contracted services.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

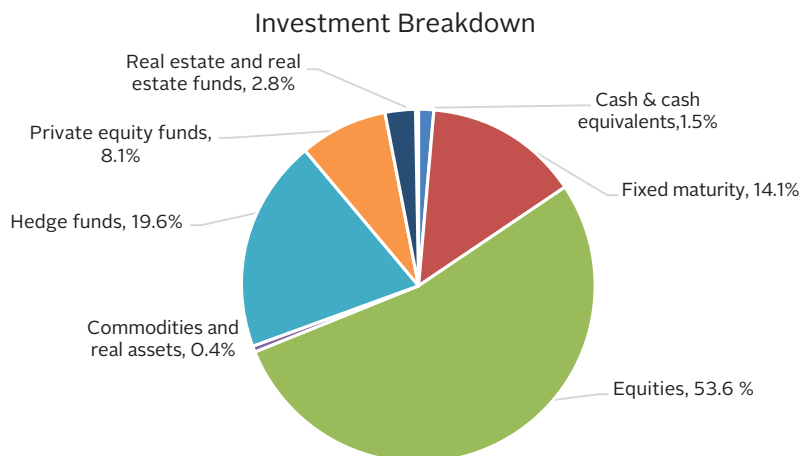
For Fiscal Year Ended June 30, 2019

## Capital and Debt

- Major capital activity in 2019 included the following projects:
  - The arena transformation project continued in to Phase III in 2019. Phase II was capitalized for \$35.8 million dollars and included work on both concourses and the exterior skin of the building. Phase III continues work on the exterior skin as well as installing air conditioning and upper bowl seating with completion expected on November 1st, 2019.
  - The library renovation was substantially completed in 2019. Phase I was capitalized for \$3.2 million. Phase II was completed in August 2019 and will be capitalized in FY2020. This \$10.7 million dollar renovation included asbestos removal, the installation of fire suppression and updates to the form and function of the space.
  - The University began renovations to instructional space on the south side of campus. This \$13.5 million project will create space for the growing Computer Science department in the College of Arts and Sciences. The space will include classrooms, labs, and faculty offices as well as collaborative spaces for faculty and students.
  - The University also completed renovations on several locations off campus for the Research Institute. These renovations will allow the Research Institute to grow their activities in Department of Defense research.
  - The University substantially completed construction on an office building on campus. This \$8.5 million building will house two community organizations along with the University's Fitz Center for Community Involvement. The tenants moved in August 2019.
- The University closed on its Series 2018B bonds through the Ohio Higher Education Facilities Commission in September 2018. Proceeds from this bond issue were used to refinance the remainder of the Series 2009 Revenue Bonds.
- In October 2018, the University worked to unwind the New Market Tax Credit financing arrangement it entered in 2012. The University successfully purchased the shares of the single member LLC's who owned the debt. This allowed the University to consolidate and remove \$35.9 million of debt and the related receivable of \$27.3 million, yielding the \$8.7 million gain reported on the Statement of Activities.
- The overall debt balance for the University decreased by the previously mentioned New Market Tax Credit unwind and the retirement of the 2009 Bond through the 2018B Bonds mentioned above. These decreases along with the University's normal debt principal retirement and amortizations of premiums, discounts and issuance costs contributed to a \$48.1 million decrease in indebtedness.
- With the new bonds being issued, the University's bond ratings were affirmed. The University holds ratings of A2 Stable with Moody's and A+ Stable with Standard and Poor's.

## Investments and Endowed Funds

- The University's investments declined modestly from \$902.3 million in 2018 to \$886.6 million in 2019 as the University used the proceeds from its 2018 bond offering. The makeup of the University's investment pool is summarized below:

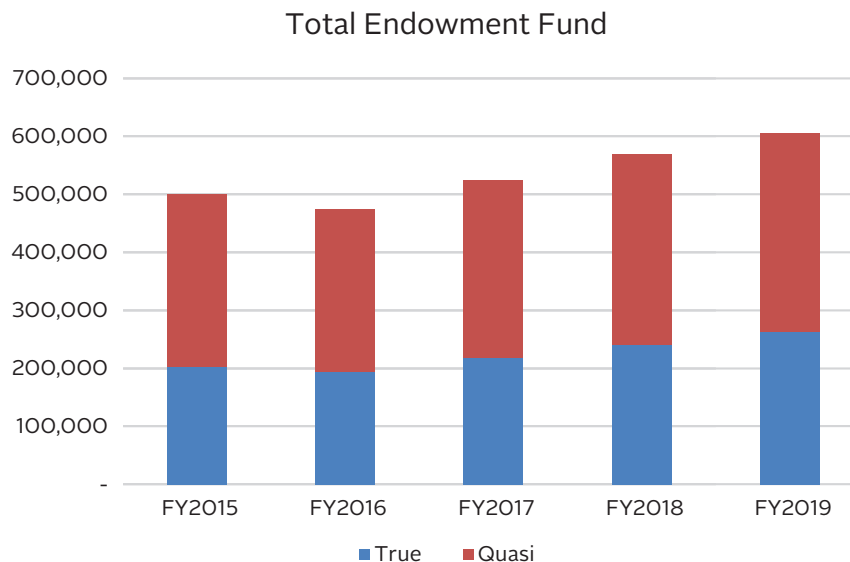




# MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Year Ended June 30, 2019

- The endowment funds grew from \$567.3 million in 2018 to \$603.1 million in 2019. This growth included contributions of \$8.1 million, investment earnings of \$35.3 million, and other additions of \$12.7 million. The University withdrew \$20.3 million for its annual spending appropriation to support current operations.



## Looking ahead

Fiscal year 2020 promises to continue the growth and success of the University. As we continue on our common good strategic plan, we anticipate the financial success of these upcoming endeavors:

- The University entered into an agreement in September 2019 to sell its building in China. The sale is anticipated to close before the end of the fiscal year.
- With its partner, the University is working to solidify plans and financing for the onMain project to revitalize the site of the former fairgrounds located next to campus. The governance structure has been created and day-to-day operations have begun. Demolition has begun on parts of the site to prepare for infrastructure needs.
- We are experiencing excellent enrollment outcomes with recent external partnerships. We project continued growth in our international student enrollment with our UDayton Global partnership. We're conservatively projecting to eclipse 500 new UDayton Global students annually beginning in Academic Year 2021. Also, based on the latest indicators of consistently strong demand for our graduate programs and plans we're making to launch new programs, we are bullish about consistent enrollment growth with our on-line partnership with 2U as we continue to launch new programs (JD) and expand newer programs (ABA, EdD and MBAN).







2018-19

**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
University of Dayton  
Dayton, Ohio

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Dayton which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statement of activities and cash flows for the years then ended and the related notes to the consolidated financial statements

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Dayton as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the University adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* during the current year. Our opinion is not modified with respect to this matter.

**RSM US LLP**

Dayton, Ohio  
October 15, 2019



# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018  
(IN THOUSANDS)

	2019	2018
<b>Assets</b>		
Cash	\$ 29,679	\$ 24,909
Collateral held for securities lending agreement (Note 3)	-	2,023
Accounts receivable - net (Note 4)	57,457	63,119
Pledges receivable - net (Note 4)	42,867	36,883
Inventories, prepaid expenses and other	7,659	7,744
Notes receivable - net (Note 4)	8,514	36,576
Investments and assets held by others (Note 5, 7, 12)	886,599	902,351
Land, buildings, and equipment (Note 8)	738,016	700,726
<b>Total assets</b>	<b>\$ 1,770,791</b>	<b>\$ 1,774,331</b>
<b>Liabilities</b>		
Accounts payable	\$ 9,697	\$ 22,811
Accrued payroll and compensated absences	24,680	23,045
Liability under securities lending agreement (Note 3)	-	2,230
Other liabilities	18,148	17,531
Deferred revenue and student deposits	12,320	12,377
Split interest agreement obligations (Note 7)	11,450	12,058
Interest rate swap obligations (Note 10, 12)	10,727	7,445
Indebtedness (Note 9)	393,819	441,907
Accrued postretirement benefits (Note 11)	46,815	62,674
Advances from government for federal loans	12,518	11,998
<b>Total liabilities</b>	<b>540,174</b>	<b>614,076</b>
<b>Net Assets (Note 13)</b>		
Without donor restrictions	935,659	871,290
With donor restrictions	294,516	288,709
Noncontrolling Interest	442	256
<b>Total net assets</b>	<b>1,230,617</b>	<b>1,160,255</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,770,791</b>	<b>\$ 1,774,331</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

(IN THOUSANDS)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Student tuition and fees	\$ 402,273	\$ -	\$ 402,273
Less student aid	(201,513)	-	(201,513)
	200,760	-	200,760
Private gifts, grants and other (Note 15)	28,550	19,710	48,260
Private research contracts	7,420	-	7,420
Government grants and contracts	164,702	-	164,702
Investment return designated for current operations (Note 5)	37,087	-	37,087
Auxiliary enterprises	111,210	-	111,210
Related entities	24,984	-	24,984
	574,713	19,710	594,423
Net assets released from restrictions	20,736	(20,736)	-
<b>Total revenues, gains, and other support</b>	<b>595,449</b>	<b>(1,026)</b>	<b>594,423</b>
Expenditures:			
Salaries and benefits	302,161	-	302,161
Interest expense	18,575	-	18,575
Depreciation	33,197	-	33,197
Cost of sales	14,174	-	14,174
Contract services and maintenance	86,979	-	86,979
Supplies	21,032	-	21,032
Utilities and communications	10,602	-	10,602
Other expenditures	77,499	-	77,499
	564,219	-	564,219
<b>Change in net assets from operations</b>	<b>31,230</b>	<b>(1,026)</b>	<b>30,204</b>
Non-operating activities:			
Investment return in excess of amounts designated for current operations (Note 5)	1,267	15,941	17,208
Actuarial change in annuities	-	(674)	(674)
Change in unrealized loss on interest rate swap agreements	(3,282)	-	(3,282)
Gain on exercise of put option	8,680	-	8,680
Gain on extinguishment of debt	986	-	986
Change in postretirement benefit obligation (Note 11)	17,239	-	17,239
Net assets released from restrictions	8,434	(8,434)	-
<b>Change in non-operating activities</b>	<b>33,324</b>	<b>6,833</b>	<b>40,157</b>
<b>Change in net assets</b>	<b>64,554</b>	<b>5,807</b>	<b>70,361</b>
Less: change in net assets attributable to to the noncontrolling interest	185		185
<b>Change in net assets attributable to the   University of Dayton</b>	<b>64,369</b>	<b>5,807</b>	<b>70,176</b>
Net assets at beginning of year	871,290	288,709	1,159,999
Net assets at end of year	\$ 935,659	\$ 294,516	\$ 1,230,175

See notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

(IN THOUSANDS)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Student tuition and fees	\$ 386,441	\$ -	\$ 386,441
Less student aid	(188,804)	-	(188,804)
	197,637	-	197,637
Private gifts, grants and other (Note 15)	27,054	28,379	55,433
Private research contracts	12,302	-	12,302
Government grants and contracts	149,142	-	149,142
Investment return designated for current operations (Note 5)	29,664	-	29,664
Auxiliary enterprises	104,756	-	104,756
Related entities	22,705	-	22,705
	543,260	28,379	571,639
Net assets released from restrictions	11,625	(11,625)	-
<b>Total revenues, gains, and other support</b>	<b>554,885</b>	<b>16,754</b>	<b>571,639</b>
Expenditures:			
Salaries and benefits	283,469	-	283,469
Interest expense	17,082	-	17,082
Depreciation	30,131	-	30,131
Cost of sales	14,976	-	14,976
Contract services and maintenance	78,068	-	78,068
Supplies	18,393	-	18,393
Utilities and communications	8,884	-	8,884
Other expenditures	73,492	-	73,492
	524,495	-	524,495
<b>Change in net assets from operations</b>	<b>30,390</b>	<b>16,754</b>	<b>47,144</b>
Non-operating activities:			
Investment return in excess of amounts designated for current operations (Note 5)	5,907	20,369	26,276
Actuarial change in annuities	-	(1,370)	(1,370)
Change in unrealized gain on interest rate swap agreements	4,644	-	4,644
Change in postretirement benefit obligation (Note 11)	17,582	-	17,582
Net assets released from restrictions	7,965	(7,965)	-
<b>Change in non-operating activities</b>	<b>36,098</b>	<b>11,034</b>	<b>47,132</b>
<b>Change in net assets</b>	<b>66,488</b>	<b>27,788</b>	<b>94,276</b>
Less: change in net assets attributable to to the noncontrolling interest	134		134
<b>Change in net assets attributable to the   University of Dayton</b>	<b>66,354</b>	<b>27,788</b>	<b>94,142</b>
Net assets at beginning of year	803,164	262,693	1,065,857
Reclassification to implement ASU 2016-14	1,772	(1,772)	-
Adjusted net assets at beginning of year	804,936	260,921	1,065,857
Net assets at end of year	\$ 871,290	\$ 288,709	\$ 1,159,999

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2019 AND 2018

(IN THOUSANDS)

	2019	2018
Operating activities:		
Change in net assets	\$ 70,361	\$ 94,276
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	33,197	30,131
Amortization	455	(973)
Gifts for restricted purposes	(15,311)	(15,167)
Net realized and unrealized gains on investments	(31,959)	(34,845)
Income restricted for long-term investment	(460)	(608)
Gain from exercise of put option	(8,680)	-
Gain on extinguishment of debt	(986)	-
Change in accrued postretirement benefit obligation	(15,859)	(15,937)
Loss (gain) on interest rate swap agreements	3,282	(4,644)
Cash provided by operating assets and liabilities:		
Increase in receivables	(322)	(11,676)
(Increase) decrease in inventories and prepaid expenses and other	86	(1,168)
Decrease in accounts payable, accrued liabilities, and other liabilities	(11,470)	(8,464)
Decrease in deferred revenue and student deposits	(57)	(10,308)
<b>Net cash provided by operating activities</b>	<b>22,277</b>	<b>20,617</b>
Investing activities:		
Income restricted for long term investment	460	608
Proceeds from the sale of investments	687,514	409,151
Purchases of investments	(640,010)	(474,668)
Additions of land, buildings and equipment, net of nominal disposals	(70,487)	(56,008)
<b>Net cash used in investing activities</b>	<b>(22,523)</b>	<b>(120,917)</b>
Financing activities:		
Increase in advances from government for federal loans	520	43
Gifts for restricted purposes	15,311	15,167
Decrease in notes receivable	747	1,272
Proceeds on indebtedness	50,755	71,495
Premium on bond issuance	5,655	5,903
Payments on indebtedness	(67,972)	(15,193)
<b>Net cash provided by financing activities</b>	<b>5,016</b>	<b>78,687</b>
<b>Net increase (decrease) in cash</b>	<b>4,770</b>	<b>(21,613)</b>
Cash:		
Beginning	24,909	46,522
Ending	\$ 29,679	\$ 24,909
Supplemental disclosure of cash flow information:		
Non-cash financing activity (Note 9)		
Assignment of notes payable	\$ (27,315)	\$ -
Assignment of notes receivable	\$ 27,315	\$ -

See notes to consolidated financial statements.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 1. Description of the Organization

The University of Dayton (the University) is an independent, coeducational institution founded and sponsored by the Society of Mary (the Marianists), a Roman Catholic Institute of Consecrated Life. The University is located in Dayton, Ohio and is one of the nation's largest Catholic institutions of higher learning. Its students are actively recruited from all states, as well as from over seventy foreign nations. The student population approximates 8,600 undergraduate and 2,600 graduate students. The University awards baccalaureate, masters, and selected doctoral degrees in programs within the College of Arts and Sciences and four professional schools: the School of Business Administration, the School of Education and Health Sciences, the School of Engineering, and the School of Law. Through these academic units and its Research Institute, the University conducts a wide variety of academic and scientific research.

The accompanying consolidated financial statements present the accounts of the following entities, hereafter referred to as the University:

- The University of Dayton;
- Nine legal limited liability companies that own interests in real estate near the University's campus, and of which the University is the sole member;
- UDCI, Ltd., a limited liability company established to hold the University's interests in its operations in China, and of which the University is the sole member;
- The River Park Community Corporation, a separate not for profit corporation engaged in activities related to the University, and of which the University is the sole member;
- 111 River Park, LLC, a wholly owned affiliate of The River Park Community Corporation,
- River Park Development II, LLC, a wholly owned affiliate of The River Park Community Corporation;
- 1414 South Patterson, LLC, a limited liability company established to hold the University's interests in a real estate joint venture, and of which the University is the sole member;
- Dayton Hotel II, LLC and Concord Dayton Hotel II, LLC, both of which are controlled by 1414 South Patterson, LLC and established to own and operate a hotel adjacent to the University's campus; and
- 1401 South Main, LLC, a limited liability company established to hold the University's interests in the real estate and operations of an office building on campus, and of which the University is the sole member.

## Note 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

**Basis of presentation:** The consolidated financial statements include the accounts of all controlled affiliates that are required to be consolidated, and all intercompany transactions and balances have been eliminated. Investments in joint ventures for which the University does not have control or is not the primary beneficiary, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Accordingly, the University's share of net earnings and losses from these ventures is included in the consolidated statements of activities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

**Net assets:** Net assets are classified into two categories: without donor restrictions, which have no donor-imposed restrictions; and with donor restrictions, which have donor-imposed restrictions. The latter category has restrictions that will be met either by actions of the University or by the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University.

The expiration of a donor restriction on a contribution or endowment income is recognized in the period in which the restriction expires, and, at that time, the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of long-lived assets, such as land, buildings, or equipment without donor restrictions concerning the use are reported as revenue of the net asset class without donor restrictions. Such gifts are recorded at fair value at the date of donation. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. Donor restrictions are considered released upon acquisition of the asset.

Net assets are released from donor restriction by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. Contributions received with donor restrictions, where the restrictions are met in the same fiscal year, are reported as net assets without donor restrictions.

**Measure of operations:** The change in net assets from operations excludes certain activity. Amounts not included in the measure of operations include investment return in excess of or deficient from amounts designated for current operations, changes in actuarial valuation of annuities, changes in the net unrealized gain (loss) on interest rate swap agreements, change in postretirement benefit obligation, and gains from extinguishment of debt or exercise of put options. The Board of Trustees designates a specified amount of the expected investment return in support of current operations. Any excess is reinvested to maintain earnings growth for support of future operations. Amounts designated for current operations include the established endowment appropriation plus amounts designated for certain expenses, including interest on indebtedness and accrued postretirement benefits.

**Related-party transactions:** The Marianists are a separate entity from the University. Members of the Marianists may serve on the faculty and staff of the University under employment agreements; however, they are not eligible to participate in the University's retirement programs. On an annual basis, the University reimburses the Marianists an amount equivalent to the salaries and benefits of employed members. The reimbursement was \$1,204 in 2019 and \$1,125 in 2018. The University's intent is to compensate the Marianists at a rate comparable to University employees in similar positions. The Marianists contribute funds to the University, which are recorded as gifts. These gifts were \$301 and \$254 in 2019 and 2018, respectively. The University has also recorded a pledge of \$1,500 from the Marianists in 2018 and has received \$500 in 2019 with the rest to be received in the next two years.

The University is a party to a joint venture agreement with another not for profit entity to perform contract research for the Federal government. The University is a 50% member of this joint venture limited liability company, and also a subcontractor to this entity. The University recognized government contract revenue of \$3,804 in 2019 and \$2,912 in 2018 from this entity.

**Liquidity:** Assets and liabilities are listed in their estimated order of liquidity. For accounts with undeterminable liquidity, the University has made additional disclosures in the accompanying notes to the consolidated financial statements.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

**Revenue recognition:** Revenue is recognized as performance obligations are satisfied, which are determined based on the nature of the services and goods provided.

Tuition and fees revenue is reported within the fiscal year in which educational services are provided. Income from tuition and fees is recognized at the beginning of the semester when classes begin. Tuition and fees relating to summer sessions that begin after June 30 are recorded in the consolidated statement of financial position as deferred revenue.

Scholarships and fellowships awarded to students for tuition, fees, and room and board are based upon need and merit. These awards include amounts funded by the endowment, research funds, and gifts, and reduce the published price of tuition for students receiving such aid. As such, institutional aid is referred to as a tuition discount and 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. Institutional aid is netted against tuition and fees, and auxiliary enterprises revenue in the statements of activities as follows (in millions):

	2019	2018
Scholarships and fellowships:		
Institutionally funded	\$ 193,246	\$ 180,056
Externally funded - gifts and grants	8,267	8,748
<b>Total amount netted against tuition and fees revenue</b>	<b>\$ 201,513</b>	<b>\$ 188,804</b>
<b>Amount netted against auxiliary enterprises revenue</b>	<b>\$ -</b>	<b>\$ -</b>

Grant and contract revenues are received from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large. Revenues from exchange transactions are recognized as the performance obligations are met, which is generally as the related costs are incurred.

Conditional promises not reflected in the financial statements, which consist primarily of the difference between the award amount and the revenue recognized for the non-exchange grants for research contracts, were \$415,378 as of June 30, 2019.

Gifts of cash, property, and marketable securities are recorded as revenue at fair value when received. Unconditional pledges are recognized as revenue based on the estimated present value of the future cash flows, net of allowances, when the commitment is received. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category. Conditional pledges are recorded as revenue only when donor conditions are substantially met.

Deferred revenue is primarily composed of amounts received for grants and contracts that are not billed on a cost reimbursement basis and student tuition received, but has not yet been earned. If services are conducted over a fiscal year-end, deferred revenue is recorded for all revenue related to programs predominately conducted in the next fiscal year.

Future performance obligations will be met within the next fiscal year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

Auxiliary enterprises include residence halls, food services, retail stores and athletics. Fee charges are directly related to the costs of services rendered and are recognized as revenue when the services or goods are delivered. These services exist to furnish goods or services to students, faculty, staff or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services.

Auxiliary enterprises revenue includes revenues from contracts with customers to provide student housing and dining facilities, ticket sales for athletic and community events, parking services, grants from the NCAA, and other miscellaneous activities. As noted above, some institutional aid packages are awarded to defray the costs of the residential program, and reduce the amount of revenue recognized.

Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered. Other revenues are directly related to the costs of services rendered and are recognized as revenue when the services or goods are delivered.

**Cash and cash equivalents:** Cash and cash equivalents include all cash and highly liquid investments that are neither internally nor externally restricted. The University considers highly liquid investments to be cash equivalents when they are both readily convertible to cash and so near to maturity (typically within 90 days) when acquired that their value is not subject to substantial risk due to changes in interest rates. The amount of cash and cash equivalents carried in the consolidated statements of financial position represents fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*.

**Accounts receivable, net:** Accounts receivable consist of amounts due to the University for tuition, grants and contracts, and other revenue generated by the University. The University has recorded an allowance for doubtful accounts based on management's assessment of historical and net collections considering historical business and economic conditions. Amounts are recorded at estimated net realizable value.

**Pledges receivable, net:** Pledges are recorded as revenue in the year the pledge is made. Unconditional donor pledges to give cash, marketable securities, and other assets are reported using a discounted cash flow approach. The discount rates used range from 1.7% to 7.0% depending on the year the pledge was received. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restriction that limit the use of the donated assets are reported as with donor restrictions support until the donor restriction expires. Most unconditional pledges are designated for scholarships and general operating purposes. An allowance is recorded for amounts deemed uncollectible.

**Inventories:** Inventories are stated at the lower of cost or market. The auxiliary operations determine cost using the first in, first out method. Facilities determines cost using an average cost method.

**Notes receivable, net:** Notes receivable consist of a loan associated with the office and research facility and from student loans under government loan programs. An allowance for doubtful accounts has been recorded based on management's assessment of historical and net collections considering historical business and economic conditions. The notes are recorded at estimated net realizable value.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

**Investments:** The University invests its endowed funds and other funds in a variety of marketable securities and alternative investments. Investments in marketable debt and equity securities are carried at market value based on quoted market prices or the last reported sale price on the last business day of the fiscal year.

Alternative investments include limited partnerships, private equity, hedge funds, and real estate partnerships, do not have readily determinable fair values, and are carried at the University's proportionate share of the fund's net asset value used as a practical expedient. Such fair value estimates are based upon the funds' net asset value at its year end, adjusted for any contributions, distributions and earnings between the funds' year end and the University's year end. In management's opinion, the stated values approximate fair value. Due to the inherent uncertainty of valuation, the estimated values may differ from values that would have been used had a readily available market value for the investments existed, and such differences may be material.

The weighted average method is used for purposes of determining gains and losses on the sale of marketable securities. Interest and dividend income is recorded when earned.

The University also holds certain real estate investments that are not readily marketable. These investments are accounted for using the equity method.

**Assets held by others and split interest agreements:** The University has entered into split interest agreements, including charitable remainder trusts and gift annuities which provide that the University, as trustee, make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. The University is also the beneficiary of charitable trusts held by third party trustees. Assets held under these agreements are included in investments and are recorded at fair value. At the date of contribution, the University records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries. The split interest agreement obligation is recorded in other liabilities on the consolidated statement of financial position. Obligations under split interest agreements are recorded at the present value of estimated payments (based on actuarially determined life expectancy tables, trust asset growth assumptions, and discount rates ranging from 1.2% to 10.0%). The annual change in the value of the split interest agreement obligation to life beneficiaries is reflected in the consolidated statement of activities and represents the change in actuarial assumptions as well as the revenues and expenses of the trust.

In addition, the University has assets held by others which represent the present value of the estimated income the University will receive in the future from beneficial interest in trusts for which third parties serve as the trustees.

**Land, buildings, and equipment:** Property and equipment is recorded at cost. Depreciation of buildings, land improvements, and equipment is recorded using the straight-line method over the estimated useful lives of 45 years, 20 years, and 3 to 15 years, respectively. The cost of repairs and maintenance is expensed in the year incurred.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

**Advances from government for federal loans:** Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students. These funds are ultimately refundable to the government and are recorded as a liability in the accompanying consolidated statements of financial position. The Federal Perkins Loan Program expired September 30, 2017 and the University may not disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The University will be liquidating its Federal Perkins Revolving Loan Fund at the direction of the Department of Education.

**Income taxes:** The University is recognized by the Internal Revenue Service (IRS) as an organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code (IRC). The University is a public charity as defined by IRC Section 170(b)(1)(A)(ii). The University is exempt from federal income taxes except to the extent of income derived from unrelated business activities. Unrelated business income is not material to the financial statements. The entities for which the University is the sole member are disregarded for tax purposes. Any activity from these entities is included in the tax return of the University.

The River Park Community Corporation has been recognized by the Internal Revenue Service as a title holding corporation exempt from federal taxation under Section 501(c)(2) of the IRC. The River Park Community Corporation is exempt from federal income taxes except to the extent of income derived from unrelated business activities.

Tax returns filed by the University and River Park Community Corporation are subject to examination by the IRS up to three years from the filing date of each return. Forms 990 and 990T filed by the entities are no longer subject to examination for the years 2015 and prior.

The University completed an analysis of its tax position, in accordance with ASC 740, *Income Taxes*, and determined that no amounts were required to be recognized in the consolidated financial statements as of June 30, 2019 or 2018.

**Use of estimates:** The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates are used to determine the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also are used to determine the reported amounts of revenue, gains, and other support and expenditures during the reporting period. The actual results could differ from these estimates.

**Functional expenses:** Expenses have been classified as instruction, administrative and general, libraries, sponsored academic projects, organized research, auxiliary operations, fundraising and related entities. These are classified based on direct expenditure where possible. Natural expenses attributable to more than one functional expense category are allocated proportionally by assigned square footage.

**Fair value measurements:** The University follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities

Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals

Level 3 – Inputs are unobservable for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

**New accounting pronouncements:** During fiscal year 2019, the University adopted the accounting pronouncements described below:

FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Topic 606 replaced most of the existing revenue recognition guidance in U.S. GAAP. Topic 606 permits the use of either a full retrospective or a modified retrospective using a cumulative effect transition method. The University adopted this ASU for the fiscal year ended June 30, 2019 using the modified retrospective approach.

FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaced the previous three classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expanded disclosures about the nature and amount of any donor restrictions. The University adopted this standard for the fiscal year ended June 30, 2019.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 2. Summary of Significant Accounting Policies (Continued)

FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, assists entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions, and determining whether a contribution is conditional. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially until the barriers to entitlement are overcome. The University adopted the ASU in fiscal year 2019 and determined that there was no material change in revenue recognition. While certain grant contracts that were previously recognized as exchange, now qualify as contributions, because of the conditions imposed by the grantors, the timing of the revenue recognition did not change. The University continues to present the exchange and contribution revenue from grant contracts in a single line on the consolidated statements of activities.

The following three recently issued accounting pronouncements are currently being evaluated, as described below:

FASB ASU 2016-02, *Leases (Topic 842)*, which supersedes Topic 840, *Leases*, requires that the lessees recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The University is currently evaluating the impact of the pending adoption of the new standard on the financial statements, which would be effective for the fiscal year ending June 30, 2020.

FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, modifies the disclosure requirements on fair value measurements. The University is currently evaluating the impact of the pending adoption of the new standard on the financial statements, which would be effective for the fiscal year ending June 30, 2021.

FASB ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 71520): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The University is currently evaluating the impact of the pending adoption of the new standard on the financial statements, which would be effective for the fiscal year ending June 30, 2023.

**Reclassifications:** Certain reclassifications have been made to the 2018 consolidated financial statement presentation to conform to 2019 presentation. Such reclassifications had no effect on the previously stated change in net assets.

## Note 3. Securities Lending Program

In prior years, the University participated in a pooled securities lending program, whereby securities owned by the University were loaned to other entities as part of a pool that was managed by a custodian bank. As of June 30, 2019, the University no longer participates in this program. Upon exit, the University was required to pay \$197 to cover the collateral deficiency in the account.

At June 30, 2018, securities on loan totaled \$22,785 for which a total amount of \$23,316 of collateral was posted by the borrowers; the market value of the cash collateral held was \$2,230. As a result of the changes in the fair value of the invested cash collateral at June 30, 2018, the University recorded a gain of approximately \$1. The results of changes in the fair value of invested collateral are included in investment gain in excess of or deficient from amounts designated for current operations on the consolidated statement of activities. These amounts are treated as noncash items for purposes of recording cash flows. The market value of noncash collateral at June 30, 2018 was \$21,086.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 4. Receivables

**Accounts receivable, net:** Accounts receivable consist of the following as of June 30:

	2019	2018
Amounts due from students for tuition and other costs	\$ 8,280	\$ 6,792
Grants and contracts	38,990	48,362
Related entities	6,306	5,685
Other	5,324	3,609
	<u>58,900</u>	<u>64,448</u>
Less: allowance for doubtful accounts	(1,443)	(1,329)
	<u>\$ 57,457</u>	<u>\$ 63,119</u>
<b>Total accounts receivable, net</b>		

**Pledges receivable, net:** Outstanding pledges receivable, which are discounted at rates ranging from 1.2% to 7.0% as of June 30, 2019 and 2018, respectively, are as follows:

	2019	2018
Less than one year	\$ 19,773	\$ 15,641
One to five years	22,425	18,912
More than five years	4,386	5,965
	<u>46,584</u>	<u>40,518</u>
Less: discount on pledges	(1,461)	(1,694)
Less: allowance for uncollectible pledges	(2,256)	(1,941)
	<u>\$ 42,867</u>	<u>\$ 36,883</u>
<b>Total pledges receivable, net</b>		

**Notes receivable, net:** Notes receivable consist of the following as of June 30:

	2019	2018
Office and research facility	\$ -	\$ 27,315
Student loans under government loan programs	8,357	10,628
Other notes	1,661	506
	<u>10,018</u>	<u>38,449</u>
Less: allowance for doubtful accounts for student loans	(1,504)	(1,873)
	<u>\$ 8,514</u>	<u>\$ 36,576</u>
<b>Total notes receivable, net</b>		

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 5. Investments

The carrying value of investments at June 30 is reflected in the following table:

	2019	2018
Cash and cash equivalents	\$ 13,039	\$ 23,242
Fixed maturity:		
US Treasuries	4,518	47,671
Mutual funds and pooled accounts		
Domestic	13,631	21,914
International	8,759	17,151
Individual securities		
Domestic	102,562	133,181
<b>Total fixed maturity</b>	<b>129,470</b>	<b>219,917</b>
Equities:		
Mutual funds and pooled accounts:		
Domestic	38,723	46,129
International	180,281	178,292
Individual securities:		
Domestic	224,708	184,237
<b>Total equities</b>	<b>443,712</b>	<b>408,658</b>
Exchange traded commodities and real assets	3,128	12,358
Hedge funds	167,105	154,925
Private equity funds	96,143	53,707
Real estate and real estate funds	31,132	26,836
Assets held by others	1,070	1,062
Other	1,800	1,646
<b>Total</b>	<b>\$ 886,599</b>	<b>\$ 902,351</b>

Approximately \$851,531 and \$816,377 of the carrying value of investments as of June 30, 2019 and 2018, respectively, is invested in the University's long-term investment pool (the pool). The pool includes the University's endowment funds.

Some of the investments, including the real estate and real estate funds, limited partnerships, hedge funds and private equity investments, have time restrictions on redemption. These restrictions vary from six months to the stated term of the limited partnership, trust, or fund, which may be longer than one year. During this period, the University may not be able to readily sell or convert certain holdings in the pool to cash. Funds that have restrictions on liquidity in excess of one year are approximately \$97,075 and \$77,556 as of June 30, 2019 and 2018, respectively, and range from two to seven years in duration.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 5. Investments (Continued)

The following tables summarize the investment return and its classification in the consolidated statements of activities as of June 30:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest earnings	\$ 21,895	\$ 441	\$ 22,336
Net realized and unrealized gains	16,459	15,500	31,959
<b>Gross return on investments</b>	<b>38,354</b>	<b>15,941</b>	<b>54,295</b>
Investment return designated for current operations	(37,087)	-	(37,087)
<b>Investment return in excess of amounts designated for current operations</b>	<b>\$ 1,267</b>	<b>\$ 15,941</b>	<b>\$ 17,208</b>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest earnings	\$ 20,491	\$ 604	\$ 21,095
Net realized and unrealized gains	15,080	19,765	34,845
<b>Gross return on investments</b>	<b>35,571</b>	<b>20,369</b>	<b>55,940</b>
Investment return designated for current operations	(29,664)	-	(29,664)
<b>Investment return in excess of amounts designated for current operations</b>	<b>\$ 5,907</b>	<b>\$ 20,369</b>	<b>\$ 26,276</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 6. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Financial assets at year end:

Cash	\$	29,679
Accounts receivable - net		57,457
Pledges receivable - net		42,867
Notes receivable - net		8,514
Investments and assets held by others		<u>886,599</u>
<b>Total financial assets as of June 30, 2019</b>		<b>1,025,116</b>

Less amounts not available to meet cash needs for general expenditures within one year:

Accounts receivables greater than a year	(5,740)
Pledge payments greater than a year	(32,886)
Notes receivables greater than a year	(8,419)
Investments not available due to contractual restrictions - bond reserves	(4,493)
Investments not available due to donor or board restrictions	<u>(621,193)</u>
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b><u>\$ 352,385</u></b>

The cash flows of the University vary throughout the fiscal year due to tuition billings as well as concentrated contributions received at calendar year and fiscal year ends. Our practice is to regularly monitor our liquidity needs to meet our operating and other contractual commitments, while optimizing any short-term excess cash investing opportunities. To further manage liquidity, the University also maintains bank lines of credit.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 7. Split Interest Agreements

A summary of assets held and related obligations related to split interest agreements as of June 30 follows:

	2019	2018
<b>Assets:</b>		
Charitable remainder trusts	\$ 12,285	\$ 11,005
Charitable gift annuities	4,584	4,771
<b>Total</b>	<b>\$ 16,869</b>	<b>\$ 15,776</b>
<b>Liabilities:</b>		
Charitable remainder trusts	\$ 8,781	\$ 9,090
Charitable gift annuities	2,669	2,968
<b>Total</b>	<b>\$ 11,450</b>	<b>\$ 12,058</b>

Contributions related to split interest agreements totaled \$0 and \$1,271 for the years ended June 30, 2019 and 2018, respectively.

## Note 8. Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at June 30:

	2019	2018
Buildings	\$ 801,087	\$ 747,235
Equipment	167,475	165,230
Land and land improvements	104,407	102,248
Library books	81,040	78,298
Renovations-in-progress	25,833	23,771
	1,179,842	1,116,782
Accumulated depreciation	(441,826)	(416,056)
	<b>\$ 738,016</b>	<b>\$ 700,726</b>

**Construction commitments:** During 2017, the University committed to renovate and improve the University's athletics arena. The costs of the renovation and improvements to the University's facility are estimated to total \$76,200. As of June 30, 2019, the University was contractually committed for construction and architectural services totaling \$16,408. The University had incurred \$56,435 of costs through 2019.

During 2018, the University committed to renovating the first and second floor of the primary campus library. The costs of the renovation and improvements to the University's facility are estimated to total \$10,700. As of June 30, 2019, the University was contractually committed for construction and architectural services totaling \$2,067. The University had incurred \$8,065 of costs through 2019.

During 2019, the University committed to building an office facility. The costs of the construction of the facility are estimated to total \$8,500. As of June 30, 2019, the University was contractually committed for construction and architectural services totaling \$3,552. The University had incurred \$4,237 of costs through 2019.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 9. Indebtedness

The University finances the construction, renovation, and acquisition of certain facilities through the issuance of debt obligations which may include bonds, bank loans, and other borrowings. Total indebtedness for the years ended June 30 was as follows:

	2019	2018
Notes and term loan:		
Term loan I	\$ 24,977	\$ 25,865
Term loan II	1,980	-
111 River Park, LLC – notes payable	-	35,996
Senior secured note	19,772	21,430
Other various notes	1,025	2,213
Revenue bonds:		
2003, due serially	8,425	12,075
2006, due serially	21,665	23,915
2009, due serially	-	56,055
2011A, due serially	14,810	14,810
2013, due serially	51,825	53,325
2015A, due serially	49,775	49,775
2015B, due serially	18,190	18,945
2016A, due serially	28,000	28,000
2016B, due serially	20,870	20,870
2018A, due serially	68,095	69,110
2018B, due serially	48,775	-
	<u>378,184</u>	<u>432,384</u>
Net unamortized premium	18,825	13,852
Net unamortized issuance cost	(3,190)	(4,329)
	<u>\$ 393,819</u>	<u>\$ 441,907</u>

Under the terms of a New Market Tax Credit financing arrangement in 2011, the University borrowed \$27,315 under a term loan agreement with a bank. This term loan is unsecured and bears interest at LIBOR plus 1.35% and matures on August 1, 2021, the interest rate has been fixed at 5.16% under the terms of a related swap agreement. The loan requires monthly payments of only interest through October 31, 2016. Beginning on November 1, 2016, the University is required to make quarterly principal payments ranging from \$199 to \$250 through May 1, 2021, \$11,500 on June 1, 2021, \$254 on August 1, 2021 at maturity.

As part of the New Market Tax Credit financing referred to above, four unrelated community development entities provided debt financing to 111 River Park, LLC, a qualified active low income community business controlled by the University, in order to construct an office and research facility adjacent to its campus. This financing consisted of eight separate qualified low income community investment loans totaling \$35,996 which were secured by a mortgage on the real property financed. These loans have interest rates ranging from 3.63% to 4.74%. The loans required payments of interest only through October 31, 2018, and then principal payments of \$177 to \$1,467 per year from November 1, 2018 through September 30, 2041, with a payment of \$14,021 due at final maturity on October 5, 2041.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 9. Indebtedness (Continued)

In October 2018, the University completed the unwinding of the New Market Tax Credit financing arrangement upon expiration of the tax credit compliance period. The 111 River Park's notes payable totaling \$35,996 were assigned by the note holders. Concurrently, put options were excised in which the University acquired the qualified low income community investment loans. As a result of the assignments and concurrent exercise of the put option, the notes receivable and payable totaling \$27,315 were held by its wholly-owned subsidiaries and were settled in full satisfaction. The remaining notes payable totaling \$8,680 were forgiven by the qualified low income community investment funds. The University recognized a gain in the amount of \$8,680 from the exercise of the put option, which is reflected in other income (expense) in the consolidated statement of activities for the year ended June 30, 2019.

Under the terms of a New Market Tax Credit financing arrangement in 2018, the University borrowed \$1,980 under a term loan agreement with a regional new market fund. This term loan is unsecured and bears interest at a fixed rate of 2.92% and matures on November 1, 2025. The loan requires monthly payments of only interest through October 31, 2025. On November 1, 2025, the University is required to make a lump sum principal payment of \$1,980.

The senior secured note is an amortizing loan at a fixed interest rate of 3.98% with a final maturity of December 17, 2026. The proceeds were used to finance the purchase and planned renovation of a hotel adjacent to the University's campus; the note is secured by a mortgage on this real estate. Monthly principal payments range from \$62 to \$189 through November 2026, with a balance of \$5,000 due at maturity.

The University uses the proceeds from Revenue Bonds to finance the construction and renovation of facilities related to the University's academic purpose. Revenue Bonds are structured as long-term leases with the State of Ohio Higher Education Facility Commission. Under the terms of these indentures, the buildings and facilities (historical cost totaling over \$434,000) are pledged as security, in addition to University revenue and the full faith and credit of the University. Upon repayment of the Revenue Bonds and termination of the leases, ownership of the respective facilities is transferred to the University.

The 2003 Revenue Bonds bear interest at a variable rate based upon the Consumer Price Index plus a stated spread; this rate has been fixed at rates ranging from 4.09% to 4.44% through final maturity in 2024 under the terms of a related swap agreement. Principal payments ranging from \$1,100 to \$3,775 are due annually through final maturity in 2024.

The 2006 Revenue Bonds bear interest at variable rates based upon the Consumer Price Index plus a spread; these rates have been fixed at rates ranging from 4.09% to 4.44% through December 1, 2023 under the terms of a related swap agreement. Principal payments ranging from \$715 to \$5,345 are due annually through final maturity in 2024.

The 2009 Revenue Bonds had interest at fixed rates ranging from 4.0% to 5.5%. Principal payments ranging from \$2,335 to \$4,170 were due annually through final maturity in 2019.

The 2011A Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.625%. Principal payments ranging from \$685 to \$1,775 are due annually through final maturity in 2042.

The 2013 Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from \$1,320 to \$3,240 are due annually through final maturity in 2044.

The 2015A Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from \$650 to \$5,440 are due annually beginning in 2025 through final maturity in 2046.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 9. Indebtedness (Continued)

The 2015B Revenue Bonds bear interest at fixed rates ranging from 0.9% to 4.335%. Principal payments ranging from \$595 to \$1,765 are due annually through final maturity in 2036.

The 2016A Revenue Bonds bear interest at variable rates based upon the 1-month LIBOR plus a stated spread; the interest rate has been fixed at 4.30% under the terms of a related swap agreement. Principal payments ranging from \$800 to \$2,875 are due annually beginning in 2021 through 2026, with a final principal payment of \$21,300 due in 2026.

The 2016B Revenue Bonds bear interest at a fixed rate of 1.99%. Principal payments of \$2,735 and \$2,875 are due annually in 2025 and 2026, with a final principal payment of \$15,260 due in 2027.

The 2018A Revenue Bonds bear interest at fixed rates ranging from 3.0% to 5.0%. Principal payments ranging from \$1,015 to \$4,050 are due annually beginning in 2019 through final maturity in 2049.

The 2018B Revenue Bonds bear interest at fixed rates ranging from 4.0% to 5.0%. Principal payments ranging from \$1,000 to \$5,115 are due annually beginning in 2019 through final maturity in 2036.

The outstanding bonds do not require mandatory reserves for future payments of principal and interest.

Bond obligations are generally callable by the University and mature at various dates through 2046. Maturities on debt obligations for the next five years and thereafter are:

2020	\$	15,648
2021		26,375
2022		26,088
2023		15,177
2023		15,875
2024 and thereafter		<u>279,021</u>
<b>Total</b>	<b>\$</b>	<b><u>378,184</u></b>

Interest expense was \$18,575 for 2019 and \$17,082 for 2018. Interest capitalized was \$140 for 2019 and \$373 for 2018. Cash paid for interest was \$15,990 for 2019 and \$17,229 for 2018.

As discussed more fully in Note 10, the University has entered into interest rate swap agreements that fix the interest rates on its variable rate debt.

The University maintains unsecured revolving credit agreements with two banks totaling \$40,000. The agreements, which are \$20,000 each, are due to expire on February 29, 2020 and December 31, 2020. As of June 30, 2019 and 2018, respectively, the University had no outstanding balances on these lines of credit.

As of June 30, 2019, the University had met all of the covenants required under its bond indentures and bank loans.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 10. Interest Rate Swap Obligations

The University uses interest rate swap agreements to manage interest rate risk associated with its variable rate debt. Under these agreements, the University and its counterparty agree to exchange the difference between the fixed and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. The difference between the fixed and variable interest amounts under the swap agreements is recorded as interest expense. The change in fair value of the interest rate swap agreements is recorded as a change in net unrealized gain (loss) on interest rate swap agreements.

In July 2011, the University entered into an interest rate swap agreement with a notional amount of \$27,449. This agreement effectively fixed the interest rate on the \$27,315 term note. The University receives the one-month LIBOR rate plus a spread of 1.35% and is required to pay a fixed rate of 5.16% through September 30, 2031. The outstanding notional amount of the swap was \$25,111 and \$25,999 at June 30, 2019 and 2018 respectively. The fair value of this agreement as of June 30, 2019 and 2018 is recorded as a liability of \$3,914 and \$2,092, respectively in the accompanying consolidated statements of financial position.

In August 2006, the University entered into an interest rate swap agreement with a notional amount of \$25,995, with an adjustment to the notional amount at various amounts based on maturity terms within the agreement. The notional amount at June 30, 2019 and 2018 is \$21,665 and \$23,915, respectively. This agreement effectively fixed the interest rate on the portion of the \$72,105 State of Ohio Higher Education Facility Commission, 2006 Revenue Bonds whose interest rate was tied to the Consumer Price Index (CPI) at rates ranging from 4.09% to 4.44% for the bonds maturing between the dates of December 1, 2015 through December 1, 2023. The fair value of this agreement as of June 30, 2019 and 2018 is recorded as a liability of \$793 and \$698, respectively in the accompanying consolidated statements of financial position.

Also in August 2006, the University entered into an interest rate swap agreement with a notional amount of \$22,350, with an adjustment to the notional amount at various amounts based on maturity terms within the agreement. The notional amount at June 30, 2019 and 2018 is \$8,425 and \$12,075, respectively. This agreement effectively fixed the interest rate, for the term of the bonds, on the portion of the \$54,100 State of Ohio Higher Education Facility Commission Converted 2003 Revenue Bonds whose interest rate was tied to the CPI at rates ranging from 4.09% to 4.44% for the bonds maturing between the dates of December 1, 2015 and December 1, 2023. The fair value of this agreement as of June 30, 2019 and 2018 is recorded as a liability of \$216 and \$217, respectively in the accompanying consolidated statements of financial position.

In April 2007, the University entered into an interest rate swap agreement with a notional amount of \$28,000. This agreement effectively fixed the interest rate on the \$28,000 State of Ohio Higher Education Facility Commission 2002 Variable Rate Revenue Bonds at 3.999% through December 1, 2032. In 2009, the 2002 bonds were retired and replaced with the 2011B Revenue Bonds, which were subsequently retired and replaced with the 2016A Revenue Bonds. In March 2016, the University amended this interest rate swap agreement. Under the revised agreement, the University receives 67% of the one-month LIBOR rate, plus a spread of 0.25%. The fair value of this agreement as of June 30, 2019 and 2018 is recorded as a liability of \$5,804 and \$4,438, respectively in the accompanying consolidated statements of financial position.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 11. Retirement Plans

The University sponsors a defined contribution retirement plan that includes substantially all of its full-time employees. The University purchases individual retirement annuities through Teachers Insurance and Annuity Association (TIAA) to fund retirement benefits. The University contributes between 2.5% and 9% of an eligible employee's salary into such annuities, depending upon the employee's contribution levels and years of service. University contributions into participant accounts vest ratably over the participant's first four years of service. The University has no unfunded pension obligation because its required plan contributions are funded on a current basis. The cost to fund these benefits was \$12,810 in 2019 and \$11,998 in 2018.

Through salary reduction agreements, employees may contribute additional amounts on a tax-deferred basis with a preferred investment provider, in accordance with limitations under the Internal Revenue Code of 1986, as amended.

The University also provides health care benefits to retired faculty and staff hired before January 1, 2014; this benefit is not available to employees hired after that date. Faculty and staff are eligible for this benefit if they have either worked 20 years and attained age 55, or worked 10 years and attained age 60, while in service with the University. The plan is contributory and contains other cost-sharing features such as deductibles and co-insurance; contributions by plan participants were \$1,178 in 2019 and \$1,315 in 2018. The University makes amounts available to retirees to purchase health care insurance under this plan and the accrued liabilities associated with this plan have been recorded on the University's financial statements in accordance with generally accepted accounting principles. During 2019, the plan was amended replacing the Medicare Supplement plan with a Medicare Advantage plan.

Postretirement benefit expense related to the Plan includes the following components as of June 30:

	2019	2018
Service cost of benefits earned	\$ 1,108	\$ 1,756
Interest cost on liability	2,390	2,795
Recognition of net gain	(513)	-
<b>Net periodic postretirement benefit cost</b>	<b>\$ 2,985</b>	<b>\$ 4,551</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 11. Retirement Plans (Continued)

A summary of the components of the changes in the projected benefit obligations and funded status of the Plan as of June 30 is as follows:

	2019	2018
Change in projected benefit obligations:		
Projected benefit obligation, beginning of year	\$ 62,674	\$ 78,611
Service cost	1,108	1,756
Interest cost	2,390	2,795
Actuarial gain	(2,397)	(17,582)
Benefits paid	(1,605)	(2,906)
Plan amendment	(15,355)	-
<b>Projected benefit obligation, end of year</b>	<b>46,815</b>	<b>62,674</b>
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	-	-
Employer contributions	1,605	2,906
Benefits paid	(1,605)	(2,906)
<b>Fair value of plan assets, end of year</b>	<b>-</b>	<b>-</b>
<b>Net liability on the statements of financial position</b>	<b>\$ 46,815</b>	<b>\$ 62,674</b>

A summary of the components recognized in net assets without donor restrictions for the years ended June 30 is as follows:

	2019	2018
Actuarial gain	\$ 2,397	\$ 17,582
Prior service cost	15,355	-
Amortization of net gain	(513)	-
	<b>\$ 17,239</b>	<b>\$ 17,582</b>

There are unrecognized actuarial gains of \$29,143 and \$11,904 included in net assets without donor restrictions at June 30, 2019 and 2018, respectively, which have not yet been recognized in the net periodic benefit cost.

The following weighted-average assumptions were used to determine the postretirement benefit obligation and the postretirement benefit cost as of June 30:

	2019	2018
Weighted-average discount rate used to determine the projected benefit obligation	3.15%	3.93%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	3.93%	3.65%

The University used the RPH-2018 Total Dataset Mortality Table fully generational using scale MP-2018 in determining its obligation.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 11. Retirement Plans (Continued)

The health care cost trend rate assumption significantly affects the projected benefit obligation and the change in the postretirement benefit obligation reported in the consolidated financial statements. The model is based on long-term projections of Gross Domestic Product per capita and National Health Expenditures per capita. These inputs are based on assumptions from the University's actuaries. The model does not specifically include an administrative cost trend. Rather, administrative costs are incorporated with the medical assumptions.

The following health care cost trend rates were assumed in the determination of the postretirement benefit obligation and net periodic benefit cost as of June 30:

	2019	2018
Initial year trend:		
Combined trend pre-Medicare	6.60%	6.60%
Combined trend post-Medicare	7.40%	7.40%
Combined ultimate trend for pre-1994 and grandfathered retirees:		
Pre-Medicare	4.50%	4.50%
Post-Medicare	4.10%	4.10%
Combined ultimate trend for non-grandfathered participants and post-1994 retirees:		
Pre-Medicare	4.50%	5.00%
Post-Medicare	No Trend	No Trend
Year that rates reach the ultimate trend rate	2040	2039

A one-percentage point change in the assumed health care cost trend rate would have the following effect on the postretirement benefit obligation as of June 30, 2019, and the net periodic benefit cost:

	1.00% Increase	1.00% Decrease
Effect on postretirement benefit obligation	\$ 3,996	\$ (3,483)
Effect on net periodic benefit cost	344	(298)

The following benefit payments, which reflect expected future service and the effect of the Medicare subsidy, as appropriate, are expected to be paid over the next ten years:

Year ending:	
2020	\$ 2,650
2021	2,830
2022	2,956
2023	3,075
2024	3,132
2025–2029	16,337

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 12. Fair Value of Financial Instruments

The University records investments in cash and cash equivalents, equity securities and equity and bond mutual funds at their current fair values based on quoted market prices in active markets for identical assets, which is consistent with Level 1 in the fair value hierarchy.

The University records its investments in U.S. government treasuries, exchange traded commodities and real estate at their current fair values based on quoted market prices in markets that are not active for all significant inputs, which is consistent with Level 2 in the fair value hierarchy; this includes the non-cash collateral held for security lending agreements. Following is the summary of the inputs and valuation techniques used as of June 30, 2019 and 2018 for valuing Level 2 investments:

<u>Investments</u>	<u>Input</u>	<u>Valuation Technique</u>
Cash equivalents	Broker/Dealer	Market
US Treasuries	Broker/Dealer	Market
Domestic fixed income securities	Broker/Dealer	Market
Exchange traded commodities and real assets	Broker/Dealer	Market

The University also holds investments in private equity funds, real estate and real estate funds, hedge funds and other investments that are not publicly traded but are valued at a net asset value per unit, or its equivalent. The University records its holding in these assets at the reported net asset value, and as such, these investments have been excluded from the fair value hierarchy. Due to the inherent uncertainty of valuation, the estimated fair values may differ from values that would have been used had a readily available market value for the investments existed, and such differences could be material.

The University also holds certain real estate investments that it accounts for using the equity method. As such, these investments are also excluded from the fair value hierarchy.

The University has an interest rate swap and fair value is provided by valuation experts using externally developed models that consider observable and unobservable market parameters due to limited market activity of the instruments.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 12. Fair Value of Financial Instruments (Continued)

The following table summarizes the recorded amount of assets and liabilities by class of asset/liability recorded at fair value on a recurring basis:

	2019			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Cash and cash equivalents	\$ 480	\$ 12,559	\$ -	\$ 13,039
US Treasuries	25	4,493	-	4,518
Fixed maturity:				
Mutual funds				
Domestic	13,631	-	-	13,631
International	8,759	-	-	8,759
Individual securities:				
Domestic	-	102,562	-	102,562
Equities:				
Mutual funds:				
Domestic	38,723	-	-	38,723
International	180,281	-	-	180,281
Individual securities:				
Domestic	224,708	-	-	224,708
Assets held by others <sup>(b)</sup>	-	-	1,070	1,070
Guaranteed investment contract	-	-	1,800	1,800
	466,607	119,614	2,870	589,091
Investments reported at fair value based on net asset value and equity method:				
Private equity funds <sup>(a)</sup>				96,143
Real estate and real estate funds <sup>(a)</sup>				23,654
Real assets <sup>(a)</sup>				3,128
Hedge funds <sup>(a)</sup>				167,105
Real estate - equity method				7,478
<b>Total assets at fair value</b>	<b>\$ 466,607</b>	<b>\$ 119,614</b>	<b>\$ 2,870</b>	<b>\$ 886,599</b>
Liabilities				
Interest rate swap obligation	\$ -	\$ 10,727	\$ -	\$ 10,727



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 12. Fair Value of Financial Instruments (Continued)

	2018			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Cash and cash equivalents	\$ 868	\$ 22,374	\$ -	\$ 23,242
US Treasuries	46	47,625	-	47,671
Fixed maturity:				
Mutual funds				
Domestic	21,914	-	-	21,914
International	17,151	-	-	17,151
Individual securities				
Domestic	-	133,181	-	133,181
Equities:				
Mutual funds:				
Domestic	46,129	-	-	46,129
International	178,292	-	-	178,292
Individual securities:				
Domestic	184,237	-	-	184,237
Exchange traded commodities and real assets	-	8,661	-	8,661
Assets held by others <sup>(b)</sup>	-	-	1,062	1,062
Guaranteed investment contract	-	-	1,646	1,646
	<u>448,637</u>	<u>211,841</u>	<u>2,708</u>	<u>663,186</u>
Investments reported at fair value based on net asset value and equity method:				
Private equity funds <sup>(a)</sup>				53,707
Real estate and real estate funds <sup>(a)</sup>				19,209
Real assets <sup>(a)</sup>				3,697
Hedge funds <sup>(a)</sup>				154,925
Real estate - equity method				7,627
<b>Total investment assets</b>	<u>448,637</u>	<u>211,841</u>	<u>2,708</u>	<u>902,351</u>
Collateral held for securities lending agreement:				
Cash and cash equivalents	-	-	-	2,023
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,023</u>
<b>Total assets at fair value</b>	<u>\$ 448,637</u>	<u>\$ 211,841</u>	<u>\$ 2,708</u>	<u>\$ 904,374</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 7,445	\$ -	\$ 7,445

<sup>(a)</sup> In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

<sup>(b)</sup> The fair value of benefit interests in trusts held by others (perpetual trusts) are based on quoted prices of the underlying assets held by trustees. Due to restrictions on these assets that do not allow the University redemption rights, fair value is deemed to be based on Level 3 inputs.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 12. Fair Value of Financial Instruments (Continued)

The table below represents quantitative information about significant unobservable inputs related to investments reported at fair value using the practical expedient.

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)*	Redemption Notice Period
Private equity funds <sup>(a)</sup>	\$ 96,143	\$ 96,303		
Real estate and real estate funds <sup>(b)</sup>	23,654	6,199		
Real assets <sup>(c)</sup>	3,128	446		
Hedge funds - Equity long/short <sup>(d)</sup>	31,542	-	monthly, quarterly	30-60 days
Hedge funds - Event driven <sup>(e)</sup>	33,804	-	quarterly	45-90 days
Hedge funds - Global opportunities <sup>(f)</sup>	17,557	-	monthly, quarterly	3-45 days
Hedge funds - Relative value <sup>(g)</sup>	66,061	-	quarterly, annually	60-90 days
Hedge funds - Multi-strategy <sup>(h)</sup>	18,141	-	quarterly, annually	65-90 days
<b>Total</b>	<b>\$ 290,030</b>	<b>\$ 102,948</b>		

\*Redemptions may be subject to an initial and/or rolling one to three year lock up or investor/fund level gate.

- (a) This class includes several private equity funds engaging venture capital, buyout and turnaround investments in U.S. and European companies. The University records its position in these funds at the reported net asset value of its ownership interest in partners' capital as reported by the general partner or fund manager, which represents fair value. These funds may hold publicly traded securities as well as other securities that do not have a readily determinable market value. Investments in publicly traded securities are generally valued at quoted market prices in active markets. Investments without readily determinable quoted market prices in active markets are valued by the fund managers or valuation committees; such valuation estimates consider cost data, restrictions affecting marketability, operating results, the financial condition of the underlying portfolio company and prices determined by using recent observable transaction information for similar investments or transactions. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 7 to 10 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2019.
- (b) Real estate funds class includes several funds that invest primarily in U.S. commercial real estate properties. The University records its position in these funds at the reported net asset value of its ownership interest in partners' capital as reported by the general partner, which represents fair value. The holdings in these funds are valued by the fund managers or valuation committees; such valuation estimates consider cost data, restrictions affecting marketability, operating results, the financial condition of the underlying property and prices determined by using recent observable transaction information for similar purchase, sale or financing transactions. These investments cannot be redeemed with the fund. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 2 to 7 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2019.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 12. Fair Value of Financial Instruments (Continued)

- (c) Real assets are held in a private real estate investment trust that invests in commercial timberland properties. The University records its position in this trust at the reported net asset value of its ownership interest in the trust as reported by the fund manager, which represents fair value. The trust's holdings are valued by fund manager or valuation committees by using recent observable transaction information for similar holdings or transactions. These investments cannot be redeemed with the fund. The nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. It is anticipated that the underlying assets of the fund would be liquidated over the next 7 to 10 years and it is probable that all of the investments in this class will be sold at an amount different from the reported net asset value at June 30, 2019.
- (d) Long-short strategies seek to profit by taking positions in equities and generally involve fundamental analysis in the investment decision process. Managers in these strategies tend to be "stock pickers" and typically manage market exposure by shifting allocations between long and short investments depending on market conditions and outlook. Long-short strategies may comprise investments in one or multiple countries, including emerging markets and one or multiple sectors.
- (e) Event driven strategies involve investing in opportunities created by significant transaction events, such as spin-offs, mergers and acquisitions, and reorganizations. These strategies include risk arbitrage, distressed situations investing, special situations, opportunistic investing, and activism.
- (f) Global opportunities strategies seek to exploit opportunities in various global markets. Portfolio managers employing these strategies have a broad mandate to invest in those markets and instruments which they believe provide the best opportunity. A portfolio manager employing a global macro strategy may take positions in currencies, sovereign bonds, global equities, and equity indices or commodities.
- (g) Relative value strategies seek to profit by exploiting pricing inefficiencies between related instruments while remaining long-term neutral to directional price movements in any one market. These strategies include, but are not limited to: Convertible Bond Arbitrage, Fixed Income Arbitrage, Options Arbitrage, Pairs Trading, and multiple "Market Neutral" strategies.
- (h) Multi-strategy funds dynamically allocate their assets among a variety of investment strategies to capture systematic inefficiencies and idiosyncratic opportunities across asset classes and market cycles. The various investment strategies employed include those detailed above. These investments include a commitment based investment in a renewable energy fund focused on the development, operation, and management of various solar projects.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 12. Fair Value of Financial Instruments (Continued)

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value for the years ended June 30:

	Assets Held by Others	Guaranteed Investment Contract	Total
Balance at July 1, 2018	\$ 1,062	\$ 1,646	\$ 2,708
Total gains or losses for the period included in earnings (or changes in net assets)	38	55	93
Purchase	-	191	191
Sales	(30)	(92)	(122)
<b>Balance at June 30, 2019</b>	<b>\$ 1,070</b>	<b>\$ 1,800</b>	<b>\$ 2,870</b>

	Assets Held by Others	Guaranteed Investment Contract	Total
Balance at July 1, 2017	\$ 1,013	\$ 1,440	\$ 2,453
Total gains or losses for the period included in earnings (or changes in net assets)	64	48	112
Purchase	22	196	218
Sales	(37)	(38)	(75)
<b>Balance at June 30, 2018</b>	<b>\$ 1,062</b>	<b>\$ 1,646</b>	<b>\$ 2,708</b>

There were no significant transfers in and out of Level 1, 2, or 3 during the period ending June 30, 2019 or 2018.

The carrying amount of cash, accounts receivable, and deferred income and student deposits approximates fair value because of the short duration of these financial instruments.

A reasonable estimate of the fair value of the notes receivable and advances from government for federal loans could not be made because the notes receivable are not saleable and can only be assigned to the United States government or its designees. It is not practical to estimate the fair value of grants and contracts receivable since they contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

The carrying amount of pledges receivable approximates fair value as these donations are recorded at the net present value of the amount pledged.

The fair value of indebtedness is approximately \$409,158 as of June 30, 2019. For fixed-rate debt, the fair market value is based on an estimate of the prevailing market yield and resulting price for each maturity of debt. The market yield is impacted by several factors including credit, length of maturity, coupon, and optional redemption provisions. Variable rate debt that is callable by the borrower at any time is generally valued at par.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 13. Nature and Amount of Net Assets

Net assets without donor restrictions at June 30 are designated for the following:

	2019	2018
Without donor restrictions:		
Board-designated endowment	\$ 345,668	\$ 325,161
Net investment in plant	287,892	231,074
Undesignated	302,099	315,055
<b>Total net assets without donor restrictions</b>	<b>\$ 935,659</b>	<b>\$ 871,290</b>

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	2019	2018
Net assets restricted for specified purpose or passage of time:		
Instruction	\$ 24,782	\$ 22,773
Administrative and general	4,505	4,050
Organized research	120	77
Libraries	4,361	4,156
Student aid	47,290	43,721
Auxiliary enterprises	813	772
Pledges receivable including capital gifts for construction	15,100	31,290
<b>Total specified purpose or time restrictions</b>	<b>96,971</b>	<b>106,839</b>
Net assets restricted perpetually:		
Instruction	61,643	60,581
Administrative and general	13,018	12,921
Organized research	2,574	2,496
Libraries	4,608	4,585
Student aid	99,607	93,025
Auxiliary enterprises	924	923
Pledges receivable	15,171	7,339
<b>Total restricted perpetually</b>	<b>197,545</b>	<b>181,870</b>
<b>Total net assets with donor restrictions</b>	<b>\$ 294,516</b>	<b>\$ 288,709</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 14. Endowment Funds

The University's endowment consists of permanently and temporarily restricted individual donor endowment funds and unrestricted board-designated or quasi endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to require the 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 that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted in accordance with UPMIFA and donor stipulations. Also in accordance with the University's interpretation of UPMIFA and absent specific donor restrictions on an endowed fund, the Board may appropriate the realized and unrealized net appreciation in the fair value of the assets of that fund for uses and purposes of the fund.

From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with accounting standards, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2019 and 2018, funds with an original gift value of \$11,085 and \$19,678 were "underwater" by \$919 and \$1,247 respectively.

The long-term objective of the University's investment portfolio is to generate a return which is sufficient to provide funding for programs supported by its endowment. To accomplish this objective, the University seeks to earn the greatest total return possible consistent with its general risk tolerance and a diversified asset allocation strategy. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that includes equity-based investments to achieve its long-term objectives within prudent risk constraints.

The University uses a hybrid method to calculate the amount it appropriates from its endowment each year (the appropriation). A portion of the appropriation is based on the prior year's appropriation plus an inflationary factor. The remaining portion of the appropriation is calculated by computing a return on the average of the previous twenty quarters ending market value computed at December 31 each year for the fiscal year beginning the following July 1. The amount appropriated is bound by a floor of 3.5% and a ceiling of 5.5% of the previous December 31 fair values for the endowment funds.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 14. Endowment Funds (Continued)

The University has the following endowment-related activities:

	Changes in Endowment Net Assets		
	Without Donor Restrictions	With Donor Restriction	Total
Endowment net assets at July 1, 2018	\$ 326,752	\$ 240,559	\$ 567,311
Investment return:			
Investment income	9,983	160	10,143
Net appreciation (depreciation) (realized and unrealized)	7,526	17,626	25,152
Contributions	589	7,517	8,106
Other (additions and deletions to endowment)	12,687	-	12,687
Appropriation of endowment assets for expenditure	(11,860)	(8,434)	(20,294)
<b>Endowment net assets at June 30, 2019</b>	<b>\$ 345,677</b>	<b>\$ 257,428</b>	<b>\$ 603,105</b>

	Changes in Endowment Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at July 1, 2017	\$ 305,052	\$ 219,134	\$ 524,186
Reclassification to implement ASU 2016-14	1,772	(1,772)	-
Investment return:			
Investment income	10,893	275	11,168
Net appreciation (depreciation) (realized and unrealized)	8,942	15,604	24,546
Contributions	204	15,283	15,487
Other (additions and deletions to endowment)	11,929	-	11,929
Appropriation of endowment assets for expenditure	(12,040)	(7,965)	(20,005)
<b>Endowment net assets at June 30, 2018</b>	<b>\$ 326,752</b>	<b>\$ 240,559</b>	<b>\$ 567,311</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 14. Endowment Funds (Continued)

The composition of net assets, by type, of endowment funds at June 30 is as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 257,428	\$ 257,428
Board-designated endowment funds	345,677	-	345,677
	<u>\$ 345,677</u>	<u>\$ 257,428</u>	<u>\$ 603,105</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 240,559	\$ 240,559
Board-designated endowment funds	326,752	-	326,752
	<u>\$ 326,752</u>	<u>\$ 240,559</u>	<u>\$ 567,311</u>

## Note 15. Private Gifts, Grants, and Other

Private Gifts, Grants, and Other include the following:

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Gifts	\$ 3,970	\$ 19,722	\$ 23,692
Sponsored projects	12,434	-	12,434
Miscellaneous income	12,134	-	12,134
Transfers between restrictions	12	(12)	-
	<u>\$ 28,550</u>	<u>\$ 19,710</u>	<u>\$ 48,260</u>

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Gifts	\$ 6,831	\$ 27,937	\$ 34,768
Sponsored projects	13,587	-	13,587
Miscellaneous income	7,078	-	7,078
Transfers between restrictions	(442)	442	-
	<u>\$ 27,054</u>	<u>\$ 28,379</u>	<u>\$ 55,433</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## Note 16. Expense Summary

The University's expenses classified by natural classification, for the years ended June 30, are summarized as follows:

2019									
Instruction	Libraries	Sponsored Academic Projects	Organized Research	Auxiliary Enterprises	Administrative and General	Fundraising	Related Entities	Total	
Salaries and benefits	\$ 121,657	\$ 5,699	\$ 5,126	\$ 72,658	\$ 37,831	\$ 44,555	\$ 7,884	\$ 6,751	\$ 302,161
Interest expense	3,392	767	-	2,102	9,353	841	-	2,120	18,575
Depreciation	7,348	1,103	-	3,055	15,464	1,355	-	4,872	33,197
Cost of sales	28	2	4	4	12,978	8	-	1,150	14,174
Contract services and maintenance	5,578	949	1,685	45,635	20,714	9,518	793	2,107	86,979
Supplies	2,398	171	712	10,078	4,690	1,879	80	1,024	21,032
Utilities and communications	2,018	476	57	1,125	5,442	968	33	483	10,602
Other expenditures	13,681	313	6,679	24,301	7,073	18,585	1,514	5,353	77,499
<b>Total expenses</b>	<b>\$ 156,100</b>	<b>\$ 9,480</b>	<b>\$ 14,263</b>	<b>\$ 158,958</b>	<b>\$ 113,545</b>	<b>\$ 77,709</b>	<b>\$ 10,304</b>	<b>\$ 23,860</b>	<b>\$ 564,219</b>

2018									
Instruction	Libraries	Sponsored Academic Projects	Organized Research	Auxiliary Enterprises	Administrative and General	Fundraising	Related Entities	Total	
Salaries and benefits	\$ 115,658	\$ 5,832	\$ 5,025	\$ 68,213	\$ 33,061	\$ 42,385	\$ 7,055	\$ 6,240	\$ 283,469
Interest expense	3,149	442	-	2,225	7,625	770	-	2,871	17,082
Depreciation	5,436	3,581	-	4,445	11,093	1,909	-	3,667	30,131
Cost of sales	45	2	4	4	13,925	19	-	977	14,976
Contract services and maintenance	6,682	1,109	611	36,824	17,847	12,140	965	1,890	78,068
Supplies	2,481	159	690	7,401	4,230	2,464	60	908	18,393
Utilities and communications	2,256	432	13	954	4,218	410	130	471	8,884
Other expenditures	13,392	905	6,087	25,317	15,178	6,678	1,173	4,762	73,492
<b>Total expenses</b>	<b>\$ 149,099</b>	<b>\$ 12,462</b>	<b>\$ 12,430</b>	<b>\$ 145,383</b>	<b>\$ 107,177</b>	<b>\$ 66,775</b>	<b>\$ 9,383</b>	<b>\$ 21,786</b>	<b>\$ 524,495</b>

## Note 17. Consolidated Entities

**Hotel operations:** The University is a member of a joint venture to own a local hotel adjacent to its campus. The University is a 90% partner in this venture.

The University recorded the following assets, liabilities, and equity on its books at June 30:

	2019	2018
<b>Assets:</b>		
Land, buildings and equipment	\$ 36,585	\$ 37,933
<b>Liabilities and equity:</b>		
Senior secured note	19,772	21,430
University net assets	3,977	2,311
Noncontrolling interest	442	256



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

## **Note 18. Subsequent Events**

On September 1, 2019, the University entered into an agreement to sell the property located in China. Pending repatriation of the proceeds that are subject to prevailing currency conditions at the time of transfer, the University anticipates it will recognize an immaterial loss on disposal.

The University has evaluated and disclosed any subsequent events through October 15, 2019, which is the date the financial statements were issued and made available.

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