

Grand View University

Financial Report
June 30, 2016

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Independent Auditor's Report

To the Board of Trustees
Grand View University
Des Moines, Iowa

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

RSM VS LLP

Des Moines, Iowa
October 7, 2016

Grand View University

**Statements of Financial Position
June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,916,189 | \$ 2,085,662 |
| Student and other receivables, net | 895,393 | 895,570 |
| Prepaid expenses | 764,974 | 688,233 |
| Inventories | 328,743 | 308,191 |
| Contributions receivable, net | 3,510,468 | 4,421,503 |
| Investments | 20,370,495 | 20,102,498 |
| Student loans receivable, net | 1,206,584 | 1,219,377 |
| Other assets | 790,978 | 845,234 |
| Unexpended bond proceeds | - | 74,469 |
| Debt service reserve fund | 2,149,072 | 1,995,482 |
| Cash restricted to investment in property and equipment | - | 2,483,995 |
| Land, buildings and equipment, net | 86,819,693 | 85,030,885 |
| | \$ 119,752,589 | \$ 120,151,099 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 1,265,517 | \$ 2,791,767 |
| Student deposits | 519,443 | 561,193 |
| Accrued expenses | 3,274,405 | 2,851,963 |
| Notes and bonds payable | 53,469,667 | 54,704,563 |
| Interest rate swap liability | 1,147,342 | 840,336 |
| Advances from federal government for student loans and grants | 975,570 | 990,315 |
| Total liabilities | 60,651,944 | 62,740,137 |
| Net assets: | | |
| Unrestricted: | | |
| Operations | 16,990,996 | 16,259,394 |
| Board designated: | | |
| United States government loan program | 303,062 | 303,062 |
| Long-term investment | 1,088,948 | 1,205,419 |
| Total unrestricted net assets | 18,383,006 | 17,767,875 |
| Temporarily restricted | 27,757,700 | 28,812,984 |
| Permanently restricted | 12,959,939 | 10,830,103 |
| Total net assets | 59,100,645 | 57,410,962 |
| Total liabilities and net assets | \$ 119,752,589 | \$ 120,151,099 |

See notes to financial statements.

Grand View University

**Statement of Activities
Year Ended June 30, 2016**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Operating revenues: | | | | |
| Student tuition and fees | \$ 40,111,596 | \$ - | \$ - | \$ 40,111,596 |
| Scholarships and fellowships | (15,711,730) | - | - | (15,711,730) |
| Net tuition and fees | 24,399,866 | - | - | 24,399,866 |
| Gifts | 303,855 | 304,599 | - | 608,454 |
| Grants | 226,891 | 698,238 | - | 925,129 |
| Investment income | 280,933 | 422,124 | - | 703,057 |
| Sales and services of auxiliary enterprises | 7,754,655 | - | - | 7,754,655 |
| Other income, net | 720,383 | 408,035 | - | 1,128,418 |
| Net assets released from restrictions | 2,155,715 | (2,155,715) | - | - |
| Total operating revenues | 35,842,298 | (322,719) | - | 35,519,579 |
| Operating expenses: | | | | |
| Instruction and research | 11,720,632 | - | - | 11,720,632 |
| Academic support | 2,660,028 | - | - | 2,660,028 |
| Student services | 6,983,719 | - | - | 6,983,719 |
| Institutional support | 6,851,874 | - | - | 6,851,874 |
| Auxiliary enterprises | 6,739,336 | - | - | 6,739,336 |
| Total operating expenses | 34,955,589 | - | - | 34,955,589 |
| Change in net assets from operating activities | 886,709 | (322,719) | - | 563,990 |
| Nonoperating activities: | | | | |
| Contributions restricted for building and equipment | - | 548,874 | - | 548,874 |
| Gifts for nonoperating purposes | 42,702 | - | 2,129,836 | 2,172,538 |
| Change in fair value of interest rate swap | (307,006) | - | - | (307,006) |
| Investment return (loss) reduced by the portion of cumulative investment return designated for current operations, net of expenses | (7,274) | (1,281,439) | - | (1,288,713) |
| Change in net assets from nonoperating activities | (271,578) | (732,565) | 2,129,836 | 1,125,693 |
| Change in net assets | 615,131 | (1,055,284) | 2,129,836 | 1,689,683 |
| Net assets at beginning of year | 17,767,875 | 28,812,984 | 10,830,103 | 57,410,962 |
| Net assets at end of year | \$ 18,383,006 | \$ 27,757,700 | \$ 12,959,939 | \$ 59,100,645 |

See notes to financial statements.

Grand View University

**Statement of Activities
Year Ended June 30, 2015**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Operating revenues: | | | | |
| Student tuition and fees | \$ 39,752,647 | \$ - | \$ - | \$ 39,752,647 |
| Scholarships and fellowships | (14,658,690) | - | - | (14,658,690) |
| Net tuition and fees | 25,093,957 | - | - | 25,093,957 |
| Gifts | 284,868 | 342,453 | - | 627,321 |
| Grants | 221,860 | 238,509 | - | 460,369 |
| Investment income | 268,975 | 578,193 | - | 847,168 |
| Sales and services of auxiliary enterprises | 7,051,401 | - | - | 7,051,401 |
| Other income, net | 632,141 | 348,323 | - | 980,464 |
| Net assets released from restrictions | 1,750,044 | (1,750,044) | - | - |
| Total operating revenues | 35,303,246 | (242,566) | - | 35,060,680 |
| Operating expenses: | | | | |
| Instruction and research | 11,461,514 | - | - | 11,461,514 |
| Academic support | 2,874,239 | - | - | 2,874,239 |
| Student services | 6,994,139 | - | - | 6,994,139 |
| Institutional support | 6,678,546 | - | - | 6,678,546 |
| Auxiliary enterprises | 6,327,288 | - | - | 6,327,288 |
| Total operating expenses | 34,335,726 | - | - | 34,335,726 |
| Change in net assets from operating activities | 967,520 | (242,566) | - | 724,954 |
| Nonoperating activities: | | | | |
| Contributions restricted for building and equipment | - | 2,407,013 | - | 2,407,013 |
| Gifts for nonoperating purposes | 286,888 | - | 174,359 | 461,247 |
| Net assets released from restrictions | 1,322,491 | (1,322,491) | - | - |
| Change in fair value of interest rate swap | 117,058 | - | - | 117,058 |
| Investment return (loss) reduced by the portion of cumulative investment return designated or current operations, net of expenses | (108,072) | (1,014,979) | - | (1,123,051) |
| Other | (553,088) | - | - | (553,088) |
| Change in net assets from nonoperating activities | 1,065,277 | 69,543 | 174,359 | 1,309,179 |
| Change in net assets | 2,032,797 | (173,023) | 174,359 | 2,034,133 |
| Net assets at beginning of year | 15,735,078 | 28,986,007 | 10,655,744 | 55,376,829 |
| Net assets at end of year | \$ 17,767,875 | \$ 28,812,984 | \$ 10,830,103 | \$ 57,410,962 |

See notes to financial statements.

Grand View University

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,689,683 | \$ 2,034,133 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,372,990 | 3,234,297 |
| Amortization | 39,384 | 611,437 |
| Realized and unrealized losses on investments, net | 1,075,908 | 951,131 |
| Noncash contributions | (606,440) | (370,607) |
| Contributions and income restricted for long-term investment | (2,503,990) | (2,221,248) |
| Change in fair value of interest rate swap | 307,006 | (117,058) |
| Changes in assets and liabilities: | | |
| Student and other receivables | 177 | 289,733 |
| Student loans receivable | 20,530 | 49,646 |
| Prepaid expenses | (76,741) | (220,844) |
| Inventories | (20,552) | 7,315 |
| Other assets | (1,555) | (2,080) |
| Contributions receivable | 911,035 | 1,334,265 |
| Accounts payable | (110,194) | 140,158 |
| Student deposits | (41,750) | 26,021 |
| Accrued expenses | 422,442 | 260,443 |
| Net cash provided by operating activities | 4,477,933 | 6,006,742 |
| Cash flows from investing activities: | | |
| Purchase of investments | (23,346,500) | (2,772,615) |
| Proceeds from sales and maturities of investments | 21,870,770 | 5,949,355 |
| Purchase of land, buildings and equipment | (6,577,854) | (14,884,174) |
| Decrease in unexpended bond proceeds | 74,469 | 4,316,810 |
| Issuance of student loans receivable | (274,522) | (269,522) |
| Payments from student loans receivable | 266,785 | 300,000 |
| Net cash used in investing activities | (7,986,852) | (7,360,146) |
| Cash flows from financing activities: | | |
| Payments on notes and bonds payable | (4,264,776) | (26,135,454) |
| Proceeds from bonds payable | 3,046,307 | 25,568,205 |
| Payment of deferred financing costs | - | (433,618) |
| Advances from federal government for student loans and grants | (14,745) | (40,233) |
| Contributions and income restricted for long-term investments | 5,572,660 | 1,470,661 |
| Net cash provided by financing activities | 4,339,446 | 429,561 |
| Net increase (decrease) in cash and cash equivalents | 830,527 | (923,843) |
| Cash and cash equivalents: | | |
| Beginning | 2,085,662 | 3,009,505 |
| Ending | \$ 2,916,189 | \$ 2,085,662 |

(Continued)

Grand View University

Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|--|----------------------------|---------------------|
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest, net of capitalized interest | | |
| 2016 \$28,118; 2015 \$228,055 | <u>\$ 2,025,340</u> | <u>\$ 2,091,345</u> |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Purchase of property and equipment on account | <u>\$ 201,531</u> | <u>\$ 1,617,587</u> |

See notes to financial statements.

Grand View University

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Related Matters

Nature of operations: Grand View University (the University) is a private, liberal arts institution located in Des Moines, Iowa, serving primarily students from Iowa. It is affiliated with the Evangelical Lutheran Church in America and is accredited by the Higher Learning Commission for baccalaureate degrees as well as master's degrees.

Basis of presentation: The financial statements of the University have been prepared on the accrual basis of accounting. The University has adopted authoritative accounting guidance for not-for-profit organizations, which requires that resources be classified for reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions.

Descriptions of the three net asset categories and types of transactions affecting each category follow:

Unrestricted net assets: Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets: Net assets subject to donor-imposed restrictions that may or will be met either by actions of the University or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed restrictions to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Accounting estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include interest-bearing money market accounts and other investments with a maturity of less than three months at the date of purchase other than money market mutual funds included in the investment portfolio. Cash at June 30, 2016 and 2015, included \$163,191 and \$175,530, respectively, restricted to use in the Federal Perkins Loan Program.

Accounts and loans receivable: Accounts receivable are carried at the unpaid balance of the original amount billed to students net of allowance for doubtful accounts of \$213,328 and \$261,750 at June 30, 2016 and 2015, respectively. Student loans receivable are carried at the amount of unpaid principal net of allowance for doubtful accounts of \$250,323 and \$252,773 at June 30, 2016 and 2015, respectively. Management determines the allowance for doubtful accounts by calculating a specific percent reserve on the aging of the accounts based on historical experience and by identifying specific past due amounts. Student accounts and loans receivable are written off when deemed uncollectible and when student loans receivable are assigned to the U.S. Department of Education. Recoveries of student accounts and loans receivable previously written off are recorded when received. Recoveries totaled approximately \$5,400 and \$17,600 for the years ended June 30, 2016 and 2015, respectively. The (recoveries of) bad debts, net, charged to expense totaled approximately \$(48,400) and \$(74,600) for the years ended June 30, 2016 and 2015, respectively.

Interest is charged on student accounts receivable that is past due and is recognized as it is charged. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding at the beginning of the term following the term to which the charges relate or if payments are not received as agreed upon. Once a receivable is sent to a collection agency, accrual of interest is suspended and recorded only if collected.

Grand View University

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

Interest is charged and recognized on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. Interest is recognized as charged. Late fees are charged if payments are not paid by the payment due date and are recognized as they are received. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education or, in the case of loan funds of the University, based on the respective program.

Inventories: Bookstore inventories are stated at the lower of cost or market.

Investments: Investments in equity and debt securities are recorded at fair value with gains and losses included in the statements of activities. Other investments are carried at fair value, measured using net asset value as the practical expedient as provided by the fund manager. Investments in certificates of deposits and money market funds are recorded at cost which approximates fair value.

Deferred financing costs: Deferred financing costs are amortized by the effective interest method over the term of the related debt and are included in other assets.

Unexpended bond proceeds: Unexpended bond proceeds are held in interest-bearing accounts and are carried at cost. The unexpended bond proceeds are restricted for the use of investment in buildings and equipment.

Debt service reserve fund: Debt service reserve fund is held in an interest-bearing account and carried at cost.

Land, buildings and equipment: Land, buildings and equipment are stated at cost or, if received by gift, at the market or appraised value at the date of gift. Depreciation is provided on the straight-line basis over the estimated useful lives of depreciable property and equipment. Interest is capitalized on construction projects with construction periods of greater than one year.

| | <u>Years</u> |
|------------------------|--------------|
| Buildings | 20-60 |
| Equipment and vehicles | 3-10 |

Advances from federal government for student loans and grants: Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the United States government and are included as a liability in the statements of financial position.

Revenue recognition: Revenues are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Grand View University

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date received. Contributions with donor-imposed restrictions that are met within the same reporting period are reported as temporarily restricted revenues, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of exhaustible long-lived assets, or of cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the University's depreciation policy.

Income and net gains on investments are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or the interpretation of relevant State law require that they be added to the principal of a permanent endowment fund.
- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.
- Increases in unrestricted net assets in all other cases.

Tuition and fees are recognized as unrestricted revenue in the applicable enrollment period that the University provides services to its students. Revenue from auxiliary enterprises is recognized when goods or services are provided.

Scholarships and fellowships: Scholarships and fellowships are offered by the University to attract and retain students. The University offers institutional support to students in the form of merit-based scholarships and need-based fellowships at the University's discretion.

Income taxes: The University is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University may be subject to federal and state income taxes on any net income from unrelated business activities. The University files a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated their material tax positions, which include such matters as the tax exempt status of the entity and various positions relative to potential sources of UBI. As of June 30, 2016 and 2015, there were no uncertain tax benefits identified and recorded as a liability.

Grand View University

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

Functional expenses: Fundraising expenses for the University consist of development, alumni, grant services and capital campaign costs. Total fundraising expenses for the years ended June 30, 2016 and 2015, were approximately \$864,000 and \$941,000, respectively. The following schedule incorporates fundraising expenses into a schedule of functional expenses:

| | 2016 | 2015 |
|------------------------|----------------------|----------------------|
| Program services | \$ 28,103,715 | \$ 27,657,180 |
| Supporting activities: | | |
| Management and general | 5,987,796 | 5,737,911 |
| Fundraising | 864,078 | 940,635 |
| | <u>\$ 34,955,589</u> | <u>\$ 34,335,726</u> |

Operating and nonoperating activities: The University has reported its activities as operating or nonoperating. Operating activities are an integral part of the programs, services and mission of the University. Nonoperating activities do not directly affect the programs and services of the University, such as contributions restricted for land, buildings and equipment or permanently restricted contributions. The difference between investment return and the spending rate is reported as a nonoperating activity.

Conditional asset retirement obligations: The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with authoritative accounting guidance regarding asset retirement obligations. The University has a liability recorded of approximately \$163,000 and \$217,000 for the years ended June 30, 2016 and 2015, respectively, which is included with accrued expenses on the statements of financial position.

Concentration of credit risk: The University had cash balances and certificates of deposit with financial institutions in excess of FDIC-insured limits during the year ended June 30, 2016. The University has not experienced any losses due to these concentrations.

Subsequent events: Subsequent events have been evaluated for potential recognition and disclosure through October 7, 2016, the date the financial statements were issued. Through that date there were no events requiring recognition or disclosure.

Fair value measurements: In general, fair value measurements are based upon quoted market prices, where available. If quoted market prices are not available, fair value measurements are estimated using relevant market information and other assumptions as described in Note 11.

Derivative financial instruments: Changes in the fair value of derivatives during the year are reported in the statement of activities. The University's participation in interest rate swap agreements as described in Note 6 are considered derivative financial instruments and have been reported in the statements of financial position at June 30, 2016 and 2015, at fair value. Changes in the fair value of the University's participation in the agreements during the year are reported in the statements of activities as change in fair value of interest rate swap agreements. The net cash received or paid under the terms of the University's participation is reported as a component of interest expense.

Grand View University

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

Recent accounting pronouncements: In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. This standard amends the fair value accounting rules to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. For public entities, like the University, the amendments in this standard are effective for fiscal years beginning after December 15, 2015, and permits early adoption. The University has elected to early adopt the provisions of this standard which are reflected in Note 11.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest*. This standard simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public entities, like the University, the amendments in this standard are effective for fiscal years beginning after December 15, 2015. The University is evaluating the impact of the standard on the financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The standard is effective for not-for-profit organizations for periods beginning after December 15, 2017. Early application of the amendments is permitted. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

Note 2. Contributions Receivable

Unconditional promises to give at June 30, 2016 and 2015, are summarized as follows:

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Restricted for time | \$ 105,647 | \$ 137,315 |
| Restricted for instruction and operational support | 890,000 | 106,000 |
| Restricted for student scholarships and services | 186,500 | 253,282 |
| Restricted for purchase or renovation of property and equipment | 2,452,436 | 4,128,038 |
| Gross unconditional promises to give | 3,634,583 | 4,624,635 |
| Less allowance for uncollectible unconditional promises | (24,174) | (37,153) |
| Less unamortized discount at rates from 0.72% to 1.63% | (99,941) | (165,979) |
| Net unconditional promises to give | <u>\$ 3,510,468</u> | <u>\$ 4,421,503</u> |

Grand View University

Notes to Financial Statements

Note 2. Contributions Receivable (Continued)

| | 2016 | 2015 |
|--------------------------------------|---------------------|---------------------|
| Amount due in: | | |
| Less than one year | \$ 1,575,117 | \$ 1,579,695 |
| One year to five years | 1,985,466 | 2,962,033 |
| Over five years | 74,000 | 82,907 |
| Gross unconditional promises to give | <u>\$ 3,634,583</u> | <u>\$ 4,624,635</u> |

Included in gross unconditional promises to give are approximately \$1,604,000 and \$2,421,000 from members of the Board of Trustees, affiliates of the Board, and officers and employees of the University as of June 30, 2016 and 2015, respectively.

Note 3. Investments

The University's long-term investment portfolio at June 30, 2016 and 2015, consisted of the following:

| | 2016 | 2015 |
|-------------------------------|----------------------|----------------------|
| Endowment investments: | | |
| Equities: | | |
| U.S. common stocks | \$ 1,035,078 | \$ - |
| Emerging market common stocks | 1,017,870 | - |
| Bonds: | | |
| Government securities | 1,065,317 | - |
| Corporate bonds | 752,937 | - |
| Equity mutual funds: | | |
| U.S.—large cap | 4,159,335 | 5,097,991 |
| Non-U.S.—large cap | 3,338,775 | 5,266,754 |
| Emerging markets | - | 1,346,319 |
| Fixed income mutual funds: | | |
| U.S.—total return | 2,709,929 | 4,487,399 |
| Non-U.S.—total return | 1,116,544 | 888,273 |
| Other investments: | | |
| Absolute return | 2,392,013 | 1,185,563 |
| Private equity | 71,577 | - |
| Real assets mutual fund | 1,227,374 | 1,234,441 |
| Money market funds | 950,081 | 81,471 |
| | <u>19,836,830</u> | <u>19,588,211</u> |
| Non-endowment investments: | | |
| Certificates of deposit | 90,451 | 90,361 |
| Money market funds | 258 | 250 |
| Other | 442,956 | 423,676 |
| | <u>533,665</u> | <u>514,287</u> |
| | <u>\$ 20,370,495</u> | <u>\$ 20,102,498</u> |

Grand View University

Notes to Financial Statements

Note 3. Investments (Continued)

Investment income for the years ended June 30, 2016 and 2015, consisted of the following:

| | 2016 | 2015 |
|----------------------------------|---------------------|---------------------|
| Interest and dividends | \$ 551,646 | \$ 751,550 |
| Realized gains and losses, net | 1,399,630 | 882,432 |
| Unrealized gains and losses, net | (2,475,538) | (1,833,563) |
| Investment management fees | (61,394) | (76,302) |
| | <u>\$ (585,656)</u> | <u>\$ (275,883)</u> |

The investments of the University are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 4. Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans represented 1.01 percent of total assets at both June 30, 2016 and 2015.

At June 30, 2016 and 2015, student loans consisted of the following:

| | 2016 | 2015 |
|---------------------------------------|---------------------|---------------------|
| Federal government programs | \$ 1,366,112 | \$ 1,372,959 |
| Institutional programs | 90,795 | 99,191 |
| | <u>1,456,907</u> | <u>1,472,150</u> |
| Less allowance for doubtful accounts: | | |
| Beginning of the year | (252,773) | (227,617) |
| (Increases) decreases | 2,450 | (25,156) |
| End of year | <u>(250,323)</u> | <u>(252,773)</u> |
| Student loans receivable, net | <u>\$ 1,206,584</u> | <u>\$ 1,219,377</u> |

The University participates in the Perkins Loan federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Grand View University

Notes to Financial Statements

Note 4. Student Loans Receivable (Continued)

At June 30, 2016 and 2015, the following amounts were past due under student loan programs:

| | 2016 | 2015 |
|----------------------------|-------------------|-------------------|
| Past due 1-60 days | \$ - | \$ - |
| Past due 60-90 days | 19,252 | 9,973 |
| Past due more than 90 days | 322,551 | 333,972 |
| Total past due | <u>\$ 341,803</u> | <u>\$ 343,945</u> |

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Federal student loans receivable are written off when deemed uncollectible and when student loans receivable may be assigned to the U.S. Department of Education. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2016:

| | Federal Loans | Institutional Loans | Total |
|---------------|---------------------|------------------------|---------------------|
| Performing | \$ 1,098,905 | \$ 35,451 | \$ 1,134,356 |
| Nonperforming | 267,207 | 55,344 | 322,551 |
| | <u>\$ 1,366,112</u> | <u>\$ 90,795</u> | <u>\$ 1,456,907</u> |

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2015:

| | Federal Loans | Institutional Loans | Total |
|---------------|---------------------|------------------------|---------------------|
| Performing | \$ 1,090,459 | \$ 47,719 | \$ 1,138,178 |
| Nonperforming | 282,500 | 51,472 | 333,972 |
| | <u>\$ 1,372,959</u> | <u>\$ 99,191</u> | <u>\$ 1,472,150</u> |

For student loans, the credit quality indicator is performance determined by delinquency status (90 days or more past due). Delinquency status is updated monthly by the University's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The University is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

Grand View University

Notes to Financial Statements

Note 5. Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2016 and 2015, consisted of the following:

| | 2016 | 2015 |
|-------------------------------|----------------------|----------------------|
| Land | \$ 10,244,416 | \$ 10,048,650 |
| Buildings | 91,398,851 | 74,271,110 |
| Rental properties | 521,005 | 521,005 |
| Vehicles | 170,185 | 158,747 |
| Equipment | 18,520,368 | 15,660,390 |
| Construction in progress | 614,135 | 15,801,052 |
| | <u>121,468,960</u> | <u>116,460,954</u> |
| Less accumulated depreciation | 34,649,267 | 31,430,069 |
| | <u>\$ 86,819,693</u> | <u>\$ 85,030,885</u> |

Note 6. Notes, Bonds Payable and Line of Credit

Notes and bonds payable at June 30, 2016 and 2015, were comprised of the following:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Iowa Higher Education Loan Authority (IHELA): | | |
| Loan agreement maturing 2034 (A) | \$ 20,415,000 | \$ 20,745,000 |
| Loan agreement maturing 2035 (B) (F) | 13,375,000 | 13,815,000 |
| Loan agreements maturing 2021 and 2035 (C) (F) | 10,400,000 | 10,353,693 |
| City of Altoona, loan agreement maturing 2022 (D) (F) | 1,879,141 | 2,138,917 |
| City of Bondurant, loan agreement maturing 2035 (E) (F) | 7,555,000 | 7,790,000 |
| | <u>53,624,141</u> | <u>54,842,610</u> |
| Unamortized bond discount and premium | (154,474) | (138,047) |
| | <u>\$ 53,469,667</u> | <u>\$ 54,704,563</u> |

- (A) The agreement dated February 1, 2015, and maturing October 1, 2034, was entered into by the University for the purpose of refunding a IHELA loan agreement, that was originally issued for the purpose of financing construction, improvement, and equipping of various campus student housing, classroom, office and athletic facilities. Interest is payable semiannually on April 1 and October 1, and principal is payable annually beginning October 1, 2015. The bonds bear interest at rates ranging from 3.00 percent to 4.25 percent. The bonds are callable in whole or part by the borrower on or after October 2023. In accordance with the bond agreement, the University is required to maintain a debt service reserve fund which shall be used solely for the payment of principal and interest on the bonds, and the agreement provides for certain covenants including financial ratios. The agreement is collateralized by a real estate mortgage on specific land, buildings and equipment.

In addition, the bonds may be tendered for purchase, at the option of the owners thereof, at the full principal amount of such bonds plus accrued interest, if any, on the date of notice of intent to tender. The remarketing agent shall use its best efforts to find purchasers for all bonds for which notice of tender has been received with any shortfall being a demand for payment. Management believes the likelihood of a purchaser not being found or remarketing proceeds being insufficient to pay the purchase price to be unlikely.

Grand View University

Notes to Financial Statements

Note 6. Notes, Bonds Payable and Line of Credit (Continued)

- (B) The agreement dated June 15, 2010, relates to the acquisition, construction, equipping and furnishing of a new student housing facility and related housing facility improvements, including parking. Interest is payable monthly, and principal is payable annually. The bond agreement has a variable interest rate indexed to 70 percent of one month LIBOR plus 2.10 percent which is reset monthly (2.42 percent as of June 30, 2016). The variable rate formula may be adjusted beginning June 15, 2017.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for the full amount of the loan. The agreement provides for the University to receive interest from the counterparty at 70 percent of one-month LIBOR plus 2.10 percent and to pay interest to the counterparty at a fixed rate of 4.15 percent on the outstanding loan balance. Under the agreement, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

The swap terminates July 1, 2017. At June 30, 2016 and 2015, the fair value of the swap agreement was a liability of approximately \$245,000 and \$429,000, respectively.

- (C) Tranche A—The agreement dated May 20, 2014, and maturing May 2035 relates to the renovation and construction of the Student Center. Interest is payable monthly with principal payments monthly beginning January 2020. The bond agreement has a variable interest rate indexed to 75 percent of one month LIBOR plus 2.00 percent which is reset monthly (2.34 percent as of June 30, 2016). The variable rate formula may be adjusted beginning October 1, 2022. At both June 30, 2016 and 2015, the outstanding balance on this tranche was \$5,400,000.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for the full amount of the loan. The agreement was effective June 1, 2014, and provides for the University to receive interest from the counterparty at 75 percent of one-month LIBOR plus 2.00 percent and to pay interest to the counterparty at a fixed rate of 4.052 percent on the outstanding loan balance. Under the agreement, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap terminates October 1, 2022. At June 30, 2016 and 2015, the fair value of the swap agreement was a liability of approximately \$446,000 and \$214,000, respectively.

Tranche B—Also as a part of the agreement the University has additional proceeds available for drawdown, maturing May 2021, with maximum borrowings of \$8,000,000 for the purpose of financing the renovation and construction of the Student Center. Interest is payable monthly commencing upon the drawdown of funds and principal is payable annually beginning in October 2016. The bond agreement has a variable interest rate indexed to 75 percent of one month LIBOR plus 2.00 percent which is reset monthly (2.34 percent as of June 30, 2016). At June 30, 2016 and 2015, the outstanding balance on this tranche was \$5,000,000 and \$4,953,693, respectively.

- (D) The agreement dated October 31, 2002, was amended on March 1, 2012, with the refunding and reissuance of outstanding bonds totaling \$2,924,672. The bond relates to the acquisition, construction, equipping and furnishing of a new student housing facility and related housing facility improvements including, but not limited to, parking and general improvements to the facilities and campus of the University. Interest and principal are payable monthly, the bond agreement has a variable interest rate indexed to 70 percent of one month LIBOR plus 2.10 percent which is reset monthly (2.42 percent as of June 30, 2016) and matures on October 15, 2022.

Grand View University

Notes to Financial Statements

Note 6. Notes, Bonds Payable and Line of Credit (Continued)

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for the full amount of the loan. The agreement provides for the University to receive interest from the counterparty at 70 percent of one-month LIBOR plus 2.10 percent and to pay interest to the counterparty at a fixed rate of 3.66 percent on the outstanding loan balance. Under the agreement, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap terminates October 1, 2022. At June 30, 2016 and 2015, the fair value of the swap agreement was a liability of approximately \$64,000 and \$40,000, respectively.

- (E) The agreement dated May 1, 2012, and maturing October 1, 2035, relates to the construction, improving and equipping of an addition to an existing student residence hall and related campus improvements including, but not limited to, parking and general improvements to the facilities and campus of the University. Interest is payable monthly and principal is payable annually. The bond agreement has a variable interest rate indexed to 70 percent of one-month LIBOR plus 2.10 percent which is reset monthly (2.42 percent as of June 30, 2016). The variable rate formula may be adjusted beginning October 1, 2022.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for the full amount of the loan. The agreement provides for the University to receive interest from the counterparty at 70 percent of one-month LIBOR plus 2.10 percent and to pay interest to the counterparty at a fixed rate of 3.75 percent on the outstanding loan balance. Under the agreement, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap terminates October 1, 2022. At June 30, 2016 and 2015, the fair value of the swap agreement was a liability of approximately \$392,000 and \$157,000, respectively.

- (F) The agreement is collateralized by a real estate mortgage on the project and other specified campus property as specified in the Real Estate Mortgage, Security Agreement, and Fixture Financing Statement and provides for certain covenants including financial ratios as specified in the Continuing Covenant Agreement dated March 15, 2012, and amended May 20, 2014.

Interest expense, net of capitalized interest, totaled approximately \$2,031,000 and \$1,981,000, respectively, for each of the years ended June 30, 2016 and 2015, under these obligations. The University capitalizes interest as a component of the cost of construction in progress. Interest of approximately \$28,000 and \$228,000 was capitalized during the years ended June 30, 2016 and 2015, respectively.

Maturities of notes and bonds payable, assuming bonds are not tendered for purchase, for the years ending June 30 are approximately: 2017 \$1,420,000; 2018 \$3,075,000; 2019 \$2,976,000; 2020 \$3,076,000; 2021 \$2,895,000 and thereafter, \$40,028,000.

The University has a \$5,000,000 line of credit with a bank with an expiration date of May 27, 2017. No borrowings were outstanding at both June 30, 2016 and 2015. The interest rate on this line of credit is 0.5 percent below the prime rate with a 3.5 percent floor (3.5 percent at June 30, 2016). No interest expense was incurred for the years ending June 30, 2016 and 2015, under the line of credit.

Grand View University

Notes to Financial Statements

Note 7. Retirement Plans

The University has a defined contribution plan covering academic and nonacademic personnel. The University also participates in the defined contribution plans of the Evangelical Lutheran Church in America for its clergy personnel. Retirement plan expense for the years ended June 30, 2016 and 2015, totaled approximately \$708,000 and \$643,000, respectively.

The University also provides employees the opportunity to defer current compensation under both a 403(b) and a 457(b) plan. Although the University makes no contributions to these plans, the 457(b) plan assets and related liability to employees totaled approximately \$443,000 and \$424,000 at June 30, 2016 and 2015, respectively, are included on the University's statement of financial position.

Note 8. Endowment Fund and Net Asset Classifications

The University's Endowment Fund consists of various donor restricted endowment funds and funds designated as endowment, quasi-endowment, by the Board of Trustees. Net assets associated with endowment funds, including funds designated to function as 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) adopted by the 2008 Iowa legislature as requiring 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, Grand View 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the State of Iowa in its enacted version of UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

The University has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the University a predictable funding stream for its programs while protecting the purchasing power of the Endowment Fund. To satisfy its long-term rate-of-return objective, the University expects to maintain appropriate diversification among equity, fixed income, and alternative investment allocations as stipulated by its investment policy. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Board of Trustees of Grand View University may appropriate for expenditure or accumulate so much of the Endowment Fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board approved percentage applied to the average fair value of the endowment fund assets during the prior three year period. In cases where the fair value of endowment fund assets fall below the original value of the gifts donated to the permanent endowment, the Board has determined that no funds shall be appropriated. The Board approved spending percentage was 4.5 percent of a three year moving average of endowment assets for both the fiscal years ended June 30, 2016 and 2015.

Grand View University

Notes to Financial Statements

Note 8. Endowment Fund and Net Asset Classifications (Continued)

Endowment net assets as of June 30, 2016, were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|----------------------|
| Donor-restricted endowment funds: | | | | |
| Instruction and operational support | \$ - | \$ 2,265,883 | \$ 5,307,556 | \$ 7,573,439 |
| Student scholarships and services | (27,295) | 1,194,723 | 6,886,179 | 8,053,607 |
| Institutional support | - | 181,514 | 46,007 | 227,521 |
| Academic support | - | 122,910 | 100,000 | 222,910 |
| General endowment | - | 2,269,028 | 620,197 | 2,889,225 |
| Board-designated (quasi) endowment funds: | | | | |
| Instruction and operational support | 1,116,243 | - | - | 1,116,243 |
| Total endowment funds | <u>\$ 1,088,948</u> | <u>\$ 6,034,058</u> | <u>\$ 12,959,939</u> | <u>\$ 20,082,945</u> |

Endowment net assets as of June 30, 2015, were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|----------------------|
| Donor-restricted endowment funds: | | | | |
| Instruction and operational support | \$ - | \$ 3,040,813 | \$ 4,306,841 | \$ 7,347,654 |
| Student scholarships and services | (1,682) | 1,781,758 | 6,025,612 | 7,805,688 |
| Institutional support | - | 194,786 | 44,837 | 239,623 |
| Academic support | - | 136,321 | 100,000 | 236,321 |
| General endowment | - | 2,506,924 | 352,813 | 2,859,737 |
| Board-designated (quasi) endowment funds: | | | | |
| Instruction and operational support | 1,207,101 | - | - | 1,207,101 |
| Total endowment funds | <u>\$ 1,205,419</u> | <u>\$ 7,660,602</u> | <u>\$ 10,830,103</u> | <u>\$ 19,696,124</u> |

The changes in endowment net assets for the year ended June 30, 2016, were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 1,205,419 | \$ 7,660,602 | \$ 10,830,103 | \$ 19,696,124 |
| Investment return: | | | | |
| Investment income | 26,847 | 422,124 | - | 448,971 |
| Net appreciation/(depreciation) (realized and unrealized) | (90,641) | (1,155,858) | - | (1,246,499) |
| Total investment return | <u>(63,794)</u> | <u>(733,734)</u> | <u>-</u> | <u>(797,528)</u> |
| Gifts | - | - | 2,129,836 | 2,129,836 |
| Appropriation of endowment funds for expenditure | <u>(52,677)</u> | <u>(892,810)</u> | <u>-</u> | <u>(945,487)</u> |
| Endowment net assets, end of year | <u>\$ 1,088,948</u> | <u>\$ 6,034,058</u> | <u>\$ 12,959,939</u> | <u>\$ 20,082,945</u> |

Grand View University

Notes to Financial Statements

Note 8. Endowment Fund and Net Asset Classifications (Continued)

The changes in endowment net assets for the year ended June 30, 2015, were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 1,278,976 | \$ 8,558,690 | \$ 10,655,744 | \$ 20,493,410 |
| Investment return: | | | | |
| Investment income | 40,429 | 579,656 | - | 620,085 |
| Net appreciation/(depreciation) (realized and unrealized) | (63,178) | (894,682) | - | (957,860) |
| Total investment return | (22,749) | (315,026) | - | (337,775) |
| Gifts | - | 21,714 | 174,359 | 196,073 |
| Appropriation of endowment funds for expenditure | (50,808) | (604,776) | - | (655,584) |
| Endowment net assets, end of year | <u>\$ 1,205,419</u> | <u>\$ 7,660,602</u> | <u>\$ 10,830,103</u> | <u>\$ 19,696,124</u> |

From time to time, the fair value of endowment funds associated with 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, underwater endowments. As of June 30, 2016 and 2015, \$27,295 and \$1,682, respectively, of the University's donor restricted endowment funds were underwater.

Note 9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Gifts and other unexpended amounts available for: | | |
| Instruction and operational support | \$ 2,395,328 | \$ 3,138,114 |
| Student scholarships and services | 1,950,794 | 2,593,430 |
| Purchase or renovation of property and equipment | 2,884,083 | 8,798,882 |
| Institutional support | 3,357,203 | 3,032,459 |
| | <u>10,587,408</u> | <u>17,562,885</u> |
| Time restrictions | 17,170,292 | 11,250,099 |
| | <u>\$ 27,757,700</u> | <u>\$ 28,812,984</u> |

Grand View University

Notes to Financial Statements

Note 9. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently restricted net assets consist of endowment funds for which the income is restricted for the following at June 30, 2016 and 2015:

| | 2016 | 2015 |
|-------------------------------------|----------------------|----------------------|
| Instruction and operational support | \$ 5,307,556 | \$ 4,306,841 |
| Student scholarships and services | 6,886,179 | 6,025,612 |
| Institutional support | 46,007 | 44,837 |
| Academic support | 100,000 | 100,000 |
| General endowment | 620,197 | 352,813 |
| | <u>\$ 12,959,939</u> | <u>\$ 10,830,103</u> |

Note 10. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors and appropriated by the University for the years ended June 30, 2016 and 2015, as follows:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Instruction and operational support | \$ 527,530 | \$ 144,370 |
| Student scholarships and services | 998,767 | 976,180 |
| Purchase or renovation of property and equipment | 59,731 | 1,325,498 |
| Institutional support | 68,072 | 197,260 |
| | <u>1,654,100</u> | <u>2,643,308</u> |
| Time restrictions, primarily depreciation | 501,615 | 429,227 |
| | <u>\$ 2,155,715</u> | <u>\$ 3,072,535</u> |

Note 11. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Authoritative accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative accounting guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

Grand View University

Notes to Financial Statements

Note 11. Fair Value Measurements (Continued)

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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended June 30, 2016.

Financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015, are as follows:

| | June 30, 2016 | | | |
|--|----------------------|--|--|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments: | | | | |
| Equities: | | | | |
| U.S. common stocks | \$ 1,035,078 | \$ 1,035,078 | \$ - | \$ - |
| Emerging market common stocks | 1,017,870 | 1,017,870 | - | - |
| Bonds: | | | | |
| Government securities | 1,065,317 | - | 1,065,317 | - |
| Corporate bonds | 752,937 | - | 752,937 | - |
| Equity mutual funds: | | | | |
| U.S.—large cap | 4,159,335 | 4,159,335 | - | - |
| Non-U.S.—large cap | 3,338,775 | 3,338,775 | - | - |
| Fixed income mutual funds: | | | | |
| U.S.—total return | 2,709,929 | 2,709,929 | - | - |
| Non-U.S.—total return | 1,116,544 | 1,116,544 | - | - |
| Absolute return mutual funds | 778,770 | 778,770 | - | - |
| Real assets mutual funds | 1,227,374 | 1,227,374 | - | - |
| Other | 442,956 | - | 442,956 | - |
| | <u>\$ 17,644,885</u> | <u>\$ 15,383,675</u> | <u>\$ 2,261,210</u> | <u>\$ -</u> |
| Alternative investments, valued at net asset value: | | | | |
| Private equity | \$ 71,577 | | | |
| Absolute return | 1,613,243 | | | |
| | <u>1,684,820</u> | | | |
| Total investments at fair value | <u>\$ 19,329,705</u> | | | |
| Liability, interest rate swaps | <u>\$ 1,147,342</u> | <u>\$ -</u> | <u>\$ 1,147,342</u> | <u>\$ -</u> |

Grand View University

Notes to Financial Statements

Note 11. Fair Value Measurements (Continued)

| | June 30, 2015 | | | |
|--------------------------------|----------------------|--|--|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments: | | | | |
| Equity mutual funds: | | | | |
| U.S.—large cap | \$ 5,097,991 | \$ 5,097,991 | \$ - | \$ - |
| Non-U.S.—large cap | 5,266,754 | 5,266,754 | - | - |
| Emerging markets | 1,346,319 | 1,346,319 | - | - |
| Fixed income mutual funds: | | | | |
| U.S.—total return | 4,487,399 | 4,487,399 | - | - |
| Non-U.S.—total return | 888,273 | 888,273 | - | - |
| Absolute return mutual fund | 1,185,563 | 1,185,563 | - | - |
| Global real assets mutual fund | 1,234,441 | 1,234,441 | - | - |
| Other | 423,676 | - | 423,676 | - |
| | <u>\$ 19,930,416</u> | <u>\$ 19,506,740</u> | <u>\$ 423,676</u> | <u>\$ -</u> |
| Liability, interest rate swaps | <u>\$ 840,336</u> | <u>\$ -</u> | <u>\$ 840,336</u> | <u>\$ -</u> |

During the year ended June 30, 2016, the University did not make significant transfers between Level 1, 2 or 3 assets and liabilities.

Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available in an active market (Level 1). If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow (Level 2).

The interest rate swaps are valued using a discounted cash flow model that uses verifiable yield curve inputs to calculate the fair value and is classified within Level 2 of the valuation hierarchy. This method is not dependent on the input of any significant judgments or assumptions by management.

Other investments are valued at the NAV of units held by the University in each account at year end. The methods used to measure NAV may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date. Alternative investments are valued at NAV using the practical expedient.

Authoritative accounting guidance also requires disclosures of the fair value of financial instruments whether or not recognized in the statement of financial position. Fair value is determined under the framework established above. Certain financial instruments and all nonfinancial instruments are excluded from these disclosure requirements.

Grand View University

Notes to Financial Statements

Note 11. Fair Value Measurements (Continued)

The following table provides a summary of information for other investments, measured at fair value using a net asset value per share, or equivalent, as of June 30:

| Description | Fair Value | |
|---------------------|---------------------|-------------|
| | 2016 | 2015 |
| Private equity (A) | \$ 71,577 | \$ - |
| Absolute return (B) | 1,613,243 | - |
| | <u>\$ 1,684,820</u> | <u>\$ -</u> |

- (A) These funds represent investments in projects and companies that own energy assets, primarily in the form of senior private debt in the United States and Canada. This fund offers no liquidation.
- (B) These funds represent investments in public and private real estate debt and hedge funds. Approximately \$584,000 of the funds are subject to quarterly redemptions with notice provided 95 days before quarter end. The remaining funds are subject to quarterly redemptions with 65 days notice. The funds contain a 25 percent investor level gate per quarter.

The University has committed an additional \$2,000,000 towards illiquid private equity funds with \$1,928,423 currently unfunded as of June 30, 2016.

Other investments are redeemable with the investee fund at NAV under the original terms of the subscription agreement. Due to the nature of these investments, changes in market conditions and the overall economic environment may significantly impact the NAV of the funds, and therefore the value of the University's interest. It is therefore reasonably possible that, if the University were to sell all or a portion of these investments, the transaction value could be significantly different than the fair value reported as of June 30.

Cash and cash equivalents, money market funds, student and other receivables, unexpended bond proceeds, debt service reserve fund accrued expenses, student deposits and accounts payable: The carrying amount approximates fair value because of the short maturity of those instruments.

Contributions receivable: The carrying amount approximates fair value as they are discounted to present value based on rates commensurate with the risks involved.

Loans to students and advances from federal government for student loans and grants: Determining the fair value of loans to students and advances from federal government for student loans and grants is not practicable due to the unique nature of these instruments.

Notes and bonds payable: For the years ended June 30, 2016 and 2015, the fair value of the University's notes and bonds payable, which is estimated using discounted cash flow analyses based on estimated current market rates, was approximately \$54,708,000 and \$53,772,000, respectively.

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Notes to Financial Statements

Note 12. Commitments

The University guarantees a loan and security agreement whereby the bank will periodically advance funds to the Iowa Student Loan Liquidity Corporation (the Corporation) for the purpose of providing funds to the Corporation to make private student loans to students attending the University under the Bridges Private Student Loans Program. The maximum amount available for loans was \$80,000 and \$125,000 for academic years 2016 and 2015, respectively. The University has guaranteed 100 percent of the outstanding principal balance and accrued interest and is liable for this student obligation upon an event of default or the maturity date of June 30, 2039. As of June 30, 2016 and 2015, approximately \$136,000 and \$103,000 has been loaned to students, respectively.