

**AURORA UNIVERSITY**  
Aurora, Illinois

**FINANCIAL STATEMENTS**  
June 30, 2017 and 2016

AURORA UNIVERSITY  
Aurora, Illinois

FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Aurora University  
Aurora, Illinois

**Report on the Financial Statements**

We have audited the accompanying financial statements of Aurora University (the "university"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

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(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aurora University as of June 30, 2017, 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.

***Other Matter***

The financial statements of Aurora University as of June 30, 2016, were audited by other auditors whose report dated October 11, 2016, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois  
October 17, 2017

AURORA UNIVERSITY  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2017 and 2016

|   | <u>2017</u>               | <u>2016</u>               |
|---|---------------------------|---------------------------|
| <b>ASSETS</b>   |                           |                           |
| Cash and cash equivalents                                     | \$ 15,149,423             | \$ 8,739,809              |
| Student accounts receivable and loans, net                    | 1,937,598                 | 2,065,529                 |
| Pledges receivable, net                                       | 837,408                   | 478,991                   |
| Prepaid expense, other receivables, and other assets          | 9,108,626                 | 4,762,319                 |
| Inventories   | 300,879                   | 310,244                   |
| Investments   | 36,426,030                | 35,645,724                |
| Beneficial interest in perpetual trusts held by third parties | 3,927,215                 | 3,883,350                 |
| Interest rate swap agreement asset                            | 162,623                   | -                         |
| Property and equipment, net                                   | <u>121,022,189</u>        | <u>116,116,444</u>        |
| <br>Total assets  | <br><u>\$ 188,871,991</u> | <br><u>\$ 172,002,410</u> |
| <b>LIABILITIES AND NET ASSETS</b>                             |                           |                           |
| <b>LIABILITIES</b>  |                           |                           |
| Accounts payable, accrued liabilities, and deposits           | \$ 10,857,024             | \$ 6,314,444              |
| Deferred revenue  | 7,992,942                 | 7,502,120                 |
| Voluntary separation plan liability                           | 1,836,877                 | 3,930,062                 |
| Postretirement benefit obligation                             | 495,813                   | 572,913                   |
| Annuities payable   | 541,096                   | 573,448                   |
| Capital leases payable  | 555,675                   | 272,162                   |
| Interest rate swap agreement liability                        | -                         | 120,902                   |
| Notes payable   | 8,586,826                 | 9,253,719                 |
| Bonds payable   | 25,200,000                | 25,200,000                |
| Asset retirement obligation                                   | 532,000                   | 522,000                   |
| Advances from federal government for student loans            | <u>288,371</u>            | <u>386,924</u>            |
| Total liabilities   | 56,886,624                | 54,648,694                |
| <b>NET ASSETS</b>   |                           |                           |
| Unrestricted  |                           |                           |
| Undesignated  | 82,709,995                | 71,133,638                |
| Board designated for endowment                                | <u>12,209,662</u>         | <u>12,400,933</u>         |
| Total unrestricted  | 94,919,657                | 83,534,571                |
| Temporarily restricted  | 14,608,044                | 12,488,520                |
| Permanently restricted  | <u>22,457,666</u>         | <u>21,330,625</u>         |
| Total net assets  | <u>131,985,367</u>        | <u>117,353,716</u>        |
| <br>Total liabilities and net assets                          | <br><u>\$ 188,871,991</u> | <br><u>\$ 172,002,410</u> |

See accompanying notes to financial statements.

AURORA UNIVERSITY  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2017 and 2016

|   | 2017                 |                                   |                                   |                       |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|
|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
| <b>Operating revenues</b>   |                      |                                   |                                   |                       |
| Educational and general revenues  |                      |                                   |                                   |                       |
| Student tuition and fees  | \$ 97,762,373        | \$ -                              | \$ -                              | \$ 97,762,373         |
| Less scholarships and aid   | <u>(30,385,977)</u>  | <u>-</u>                          | <u>-</u>                          | <u>(30,385,977)</u>   |
| Net student tuition and fees  | 67,376,396           | -                                 | -                                 | 67,376,396            |
| Federal grants and contracts  | 431,435              | -                                 | -                                 | 431,435               |
| State and local grants and contracts  | -                    | 414,974                           | -                                 | 414,974               |
| Private grants and contracts  | 10,902               | 458,367                           | -                                 | 469,269               |
| Private gifts   | 1,060,041            | 72,431                            | -                                 | 1,132,472             |
| Auxiliary enterprises, net  | 8,196,187            | -                                 | -                                 | 8,196,187             |
| Investment income   | 452,818              | 1,325,568                         | -                                 | 1,778,386             |
| Other income  | <u>1,502,359</u>     | <u>209,102</u>                    | <u>-</u>                          | <u>1,711,461</u>      |
| Total educational and general revenues  | 79,030,138           | 2,480,442                         | -                                 | 81,510,580            |
| Net assets released from restrictions   | <u>2,581,454</u>     | <u>(2,581,454)</u>                | <u>-</u>                          | <u>-</u>              |
| Total operating revenues  | 81,611,592           | (101,012)                         | -                                 | 81,510,580            |
| <b>Operating expenses</b>   |                      |                                   |                                   |                       |
| Educational and general expenses  |                      |                                   |                                   |                       |
| Instruction   | 27,531,096           | -                                 | -                                 | 27,531,096            |
| Public service  | 2,389,530            | -                                 | -                                 | 2,389,530             |
| Academic support  | 4,999,894            | -                                 | -                                 | 4,999,894             |
| Student support   | 14,080,255           | -                                 | -                                 | 14,080,255            |
| Institutional support   | <u>15,679,667</u>    | <u>-</u>                          | <u>-</u>                          | <u>15,679,667</u>     |
| Total educational and general expenses  | 64,680,442           | -                                 | -                                 | 64,680,442            |
| Auxiliary enterprises   | <u>8,805,652</u>     | <u>-</u>                          | <u>-</u>                          | <u>8,805,652</u>      |
| Total operating expenses  | <u>73,486,094</u>    | <u>-</u>                          | <u>-</u>                          | <u>73,486,094</u>     |
| <b>Net operating revenues in excess<br/>    of/(less than) operating expenses</b>   | 8,125,498            | (101,012)                         | -                                 | 8,024,486             |
| <b>Non-operating revenues (expenses)</b>  |                      |                                   |                                   |                       |
| Gifts and grants  | 780,986              | 1,868,463                         | 1,189,811                         | 3,839,260             |
| Capital funds released from restrictions and other transfers                        | 1,359,992            | (1,253,357)                       | (106,635)                         | -                     |
| Net loss on disposal of assets  | (175,317)            | -                                 | -                                 | (175,317)             |
| Change in asset retirement obligation   | (10,000)             | -                                 | -                                 | (10,000)              |
| Investment gain net of amounts designated<br>for current operations                 | 1,020,402            | 1,666,941                         | -                                 | 2,687,343             |
| Change in value of beneficial interest in<br>perpetual trusts held by third parties | -                    | -                                 | 43,865                            | 43,865                |
| Adjustment of liability for annuities   | -                    | (61,511)                          | -                                 | (61,511)              |
| Change in fair value of interest rate swap agreements                               | <u>283,525</u>       | <u>-</u>                          | <u>-</u>                          | <u>283,525</u>        |
| Change in net assets from<br>non-operating revenues (expenses)                      | <u>3,259,588</u>     | <u>2,220,536</u>                  | <u>1,127,041</u>                  | <u>6,607,165</u>      |
| <b>Increase in net assets</b>   | 11,385,086           | 2,119,524                         | 1,127,041                         | 14,631,651            |
| Net assets, beginning of year   | <u>83,534,571</u>    | <u>12,488,520</u>                 | <u>21,330,625</u>                 | <u>117,353,716</u>    |
| <b>Net assets, end of year</b>  | <u>\$ 94,919,657</u> | <u>\$ 14,608,044</u>              | <u>\$ 22,457,666</u>              | <u>\$ 131,985,367</u> |

(Continued)

AURORA UNIVERSITY  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2017 and 2016

|   | 2016                 |                                   |                                   |                       |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|
|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
| <b>Operating revenues</b>   |                      |                                   |                                   |                       |
| Educational and general revenues  |                      |                                   |                                   |                       |
| Student tuition and fees  | \$ 90,268,013        | \$ -                              | \$ -                              | \$ 90,268,013         |
| Less scholarships and aid   | (27,201,380)         | -                                 | -                                 | (27,201,380)          |
| Net student tuition and fees  | 63,066,633           | -                                 | -                                 | 63,066,633            |
| Federal grants and contracts  | 524,091              | 12,050                            | -                                 | 536,141               |
| State and local grants and contracts  | -                    | 391,272                           | -                                 | 391,272               |
| Private grants and contracts  | 118,670              | 537,268                           | -                                 | 655,938               |
| Private gifts   | 1,023,979            | 133,592                           | -                                 | 1,157,571             |
| Auxiliary enterprises, net  | 8,139,593            | -                                 | -                                 | 8,139,593             |
| Investment income   | 339,205              | 1,364,022                         | -                                 | 1,703,227             |
| Other income  | 1,426,545            | 176,314                           | -                                 | 1,602,859             |
| Total educational and general revenues  | 74,638,716           | 2,614,518                         | -                                 | 77,253,234            |
| Net assets released from restrictions   | 2,553,586            | (2,553,586)                       | -                                 | -                     |
| Total operating revenues  | 77,192,302           | 60,932                            | -                                 | 77,253,234            |
| <b>Operating expenses</b>   |                      |                                   |                                   |                       |
| Educational and general expenses  |                      |                                   |                                   |                       |
| Instruction   | 27,975,022           | -                                 | -                                 | 27,975,022            |
| Research  | 34,773               | -                                 | -                                 | 34,773                |
| Public service  | 2,493,113            | -                                 | -                                 | 2,493,113             |
| Academic support  | 4,979,394            | -                                 | -                                 | 4,979,394             |
| Student support   | 13,426,346           | -                                 | -                                 | 13,426,346            |
| Institutional support   | 15,749,146           | -                                 | -                                 | 15,749,146            |
| Total educational and general expenses  | 64,657,794           | -                                 | -                                 | 64,657,794            |
| Auxiliary enterprises   | 8,466,748            | -                                 | -                                 | 8,466,748             |
| Total operating expenses  | 73,124,542           | -                                 | -                                 | 73,124,542            |
| <b>Net operating revenues in excess<br/>    of operating expenses</b>               | 4,067,760            | 60,932                            | -                                 | 4,128,692             |
| Non-operating revenues (expenses)   |                      |                                   |                                   |                       |
| Gifts and grants  | 210,724              | 366,942                           | 337,987                           | 915,653               |
| Capital funds released from restrictions and other transfers                        | 5,727,864            | (6,172,564)                       | 444,700                           | -                     |
| Net loss on disposal of assets  | (842,164)            | -                                 | -                                 | (842,164)             |
| Voluntary separation plan expenses  | (4,216,638)          | -                                 | -                                 | (4,216,638)           |
| Change in asset retirement obligation   | 32,000               | -                                 | -                                 | 32,000                |
| Investment loss net of amounts designated<br>for current operations                 | (449,155)            | (908,377)                         | -                                 | (1,357,532)           |
| Change in value of beneficial interest in<br>perpetual trusts held by third parties | -                    | -                                 | (445,031)                         | (445,031)             |
| Adjustment of liability for annuities   | -                    | (64,440)                          | -                                 | (64,440)              |
| Change in fair value of interest rate swap agreements                               | 155,749              | -                                 | -                                 | 155,749               |
| Change in net assets from<br>non-operating revenues (expenses)                      | 618,380              | (6,778,439)                       | 337,656                           | (5,822,403)           |
| <b>Increase (decrease) in net assets</b>  | 4,686,140            | (6,717,507)                       | 337,656                           | (1,693,711)           |
| Net assets, beginning of year   | 78,848,431           | 19,206,027                        | 20,992,969                        | 119,047,427           |
| <b>Net assets, end of year</b>  | <u>\$ 83,534,571</u> | <u>\$ 12,488,520</u>              | <u>\$ 21,330,625</u>              | <u>\$ 117,353,716</u> |

See accompanying notes to financial statements.

AURORA UNIVERSITY  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2017 and 2016

|  | <u>2017</u>          | <u>2016</u>         |
|--|----------------------|---------------------|
| <b>Cash flows from operating activities</b>  |                      |                     |
| Increase (decrease) in net assets  | \$ 14,631,651        | \$ (1,693,711)      |
| Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities |                      |                     |
| Noncash contribution of real property  | (64,000)             | -                   |
| Depreciation   | 7,101,635            | 6,801,099           |
| Amortization of bond issue costs   | 10,989               | 10,989              |
| Change in fair value of interest rate swap agreements  | (283,525)            | (155,749)           |
| Loss on disposal of assets   | 175,317              | 842,164             |
| Net realized gain on investments   | (1,859,792)          | (564,757)           |
| Net unrealized (gain)/loss on investments  | (1,836,164)          | 1,017,125           |
| Provision for doubtful accounts  | 507,438              | 326,020             |
| Change in value of beneficial interests in perpetual trusts                                      | (43,865)             | 445,031             |
| Actuarial adjustment to annuity obligations  | 67,462               | 57,906              |
| Contributions and grants for long-term purposes  | (3,058,274)          | (704,929)           |
| (Increase) decrease in   |                      |                     |
| Accounts and pledges receivable, net   | (270,876)            | (82,614)            |
| Inventories  | 9,365                | 83,940              |
| Prepaid expenses, other receivables and other assets   | (4,357,296)          | (2,610,895)         |
| Increase (decrease) in   |                      |                     |
| Accounts payable and accrued expenses  | (2,124,721)          | 2,681,714           |
| Deferred revenue   | 490,822              | 1,164,914           |
| Advances from federal government for student loans   | (98,553)             | (249,200)           |
| Postretirement benefit obligation  | (77,100)             | (182,306)           |
| Net cash from operating activities   | 8,920,513            | 7,186,741           |
| <b>Cash flows from investing activities</b>  |                      |                     |
| Purchases of investments, net  | (10,258,530)         | (10,103,570)        |
| Proceeds from sale of investments  | 13,174,180           | 14,928,500          |
| Proceeds from sale of property and equipment   | 7,000                | -                   |
| Purchases of property and equipment  | (7,070,861)          | (8,282,404)         |
| Net cash from investing activities   | (4,148,211)          | (3,457,474)         |
| <b>Cash flows from financing activities</b>  |                      |                     |
| Proceeds from contributions and grants for long-term purposes                                    | 2,591,226            | 752,837             |
| Payments on note payable   | (666,893)            | (628,581)           |
| Payments on annuities payable  | (99,814)             | (100,114)           |
| Payments on capital leases   | (187,207)            | (156,734)           |
| Net cash from financing activities   | 1,637,312            | (132,592)           |
| <b>Net increase in cash and cash equivalents</b>   | 6,409,614            | 3,596,675           |
| Cash and cash equivalents, beginning of year   | 8,739,809            | 5,143,134           |
| <b>Cash and cash equivalents, end of year</b>  | <u>\$ 15,149,423</u> | <u>\$ 8,739,809</u> |
| <b>Supplemental disclosure of cash flow information</b>  |                      |                     |
| Cash paid for interest   | \$ 335,261           | \$ 408,969          |
| Capital lease obligation incurred  | 548,085              | 146,431             |
| Construction in progress included in accounts payable  | 4,584,116            | 178,773             |

See accompanying notes to financial statements.



AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 1 - ORGANIZATION**

Aurora University (the "university") is a private, Illinois not-for-profit institution of higher education offering undergraduate and graduate degree programs in more than 40 majors including arts and sciences, business, criminal justice, education, math, nursing, and social work. The university draws its diverse student body primarily from the upper-Midwest region of the United States. Besides the main campus in Aurora, Illinois, classes are offered at the George Williams College campus in Williams Bay, Wisconsin, at the Woodstock Center in Woodstock, Illinois, online, and at various other sites in Illinois and Wisconsin.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the university have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America as employed by not-for-profit institutions.

Basis of Presentation: The university classifies resources for accounting and reporting purposes into three net asset categories: unrestricted, temporarily restricted, and permanently restricted, based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets include resources that are not subject to donor-imposed restrictions and resources for which donor-imposed restrictions have been satisfied. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. When donor-stipulated purposes have been fulfilled, or stipulated time periods have elapsed, restricted net assets are reclassified from restricted to unrestricted. Restricted net assets subject to donor-imposed restrictions that never lapse are retained permanently.

Non-operating revenues or expenses primarily reflect transactions of a capital nature, e.g., contributions to be used for facilities and equipment, voluntary separation plan expenses, or investment returns in excess of amounts designated for current operations.

Tuition Revenue: Revenue from tuition is recognized during the semester in which the student attends class. Deferred revenue consists primarily of tuition and fees paid in advance of the summer term and fall semester.

Private Gifts: Private gifts, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met.

Grants and Contracts: Revenue from grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement.

Auxiliary Enterprises: The university's auxiliary enterprises consist primarily of residence halls and dining services provided to students and conference attendees.

Cash and Cash Equivalents: Cash and cash equivalents include amounts held in bank and money market accounts or other highly liquid investments with an original maturity of three months or less.

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Student Receivables: Student receivables are stated at amounts management expects to collect from outstanding balances and are generally due one week before the start of the semester. A flat fee is assessed for past due accounts.

The allowance for uncollectible accounts is based on the university's experience in collecting student accounts receivable considering specific accounts and the aging of accounts in general. Accounts are written off when they are deemed uncollectible by management.

Student Loans Receivable: Notes receivable from students represent advances for Federal Perkins and university student loan programs. The allowance for uncollectible loans is based on an analysis of delinquent amounts and the university's experience in collecting loans receivable.

Investments: Marketable equity and fixed income securities are stated principally at published market quotations or by using quoted market prices of similar securities with similar due dates which approximate fair value. Investments in certificates of deposit are stated at cost, which approximates fair value.

Bank issued common funds and alternative investments are valued using an estimated daily Net Asset Value (NAV) as reported by fund managers. NAV is used as a practical expedient to estimate fair value of the university's interest.

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

Beneficial Interest in Perpetual Trusts Held by Third Parties: The perpetual trust balance represents funds that are held and administered by an outside trustee. These amounts represent certain endowed funds held in trust primarily for the benefit of the Schingoethe Center for Native American Cultures. The trust assets totaled \$3,927,215 and \$3,883,350 at June 30, 2017 and 2016, respectively.

Inventories: Inventories are comprised principally of bookstore goods for sale. Inventories are valued at the lower of cost or market using the first in, first out method of costing.

Collections: Purchased items accessioned into the collection are capitalized at cost and donated items are capitalized at their appraised or fair value on the accession date. Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. The university's collection is maintained and preserved by the Schingoethe Center of Aurora University museum. The cost of the collection totaled \$1,344,669 at June 30, 2017 and 2016 and is included with net property and equipment on the statement of financial position.

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment: The university capitalizes property and equipment with a useful life greater than one year and whose cost exceeds \$2,000. Property and equipment are stated at cost at date of acquisition or, in the case of gifts, fair market value at date of donation, less accumulated depreciation. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which are as follows:

|                       |             |
|-----------------------|-------------|
| Buildings             | 30-50 years |
| Building improvements | 20 years    |
| Land improvements     | 10-20 years |
| Equipment             | 10 years    |
| Computers             | 3-5 years   |
| Vehicles              | 5 years     |

Deferred Revenue: Student deposits and advance payments for future sessions are deferred and will be recorded as revenue in the year in which the sessions are substantially completed. Additionally, deferred revenue includes rental income that will be recognized in future years.

Voluntary Separation Plan Liability: During the year ended June 30, 2016, the university entered into various voluntary employment separation agreements with certain eligible employees. These agreements provide post-employment severance payments and partial medical insurance COBRA benefits over the term of the agreement. The university accrued for all future payments under agreements executed June 30, 2016 and prior. The expense associated with these contracts was \$4,216,638 for the year ended June 30, 2016, and is presented as a non-operating expense on the statement of activities. The liability under these contracts was \$1,836,877 and \$3,930,062 at June 30, 2017 and 2016, respectively.

Interest Rate Swap Agreements: The university uses interest rate swap agreements to manage the effect of interest rate changes on underlying floating-rate debt. The university recognizes all derivative instruments as assets or liabilities at fair value with the related gain or loss reflected as non-operating income or expense.

Endowment Spending Rate Policy: The university's endowment fund may spend an annual distribution of up to 5% of a three-year moving average of market values each year. Endowments with specific donor-imposed restrictions on the investment and maintenance of the gift corpus are not governed by this policy. In addition, the board-designated Malcolm Jones Endowment 2017 Fund (Endowment 2017) is excluded from the spending policy. All income from Endowment 2017 is to be retained through June 30, 2017, after which time the fund will be subject to further Board of Trustee direction.

Tax Status: On September 4, 1941, the university was recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements, as the university has had no significant unrelated business income. The university is not classified as a private foundation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues, expenses, gains, and losses during the reporting periods. Actual results could differ from those estimates.

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Reclassifications: Certain amounts in the prior year financial statements have been reclassified, with no effect on net assets or change in net assets, to conform to the current year presentation.

**NOTE 3 - CONCENTRATION OF CREDIT RISK FOR CASH IN BANK ACCOUNTS**

The university maintains cash balances in bank accounts which, at times, may exceed insured limits set by the Federal Deposit Insurance Corporation (FDIC). The university has not experienced losses and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**NOTE 4 - STUDENT AND OTHER RECEIVABLES**

The university's student and other receivables as of June 30, 2017 and 2016, are summarized below:

|   | <u>2017</u>                    | <u>2016</u>                    |
|---|--------------------------------|--------------------------------|
| Student accounts                        | \$ 2,683,389                   | \$ 2,527,174                   |
| Less allowance for doubtful accounts    | <u>(1,408,000)</u>             | <u>(1,220,000)</u>             |
| Total student accounts receivable       | 1,275,389                      | 1,307,174                      |
| <br>Perkins loan program*               | <br>457,213                    | <br>556,127                    |
| Less allowance for doubtful accounts    | <u>(203,000)</u>               | <u>(203,000)</u>               |
| Total Perkins loan program              | 254,213                        | 353,127                        |
| <br>University loan program             | <br>5,238                      | <br>8,628                      |
| Less allowance for doubtful accounts    | <u>(4,000)</u>                 | <u>(6,100)</u>                 |
| Total university loan program           | 1,238                          | 2,528                          |
| <br>Other accounts receivable           | <br><u>406,758</u>             | <br><u>402,700</u>             |
| <br>Total student and other receivables | <br><u><u>\$ 1,937,598</u></u> | <br><u><u>\$ 2,065,529</u></u> |

\* Federal Perkins loans are loans for which the university acts as an agent for the Federal government in administering the loan program. The Perkins loan portfolio is guaranteed by the United States Department of Education. There are no modifications to loan terms executed by the university since past due loans are turned over to the Department of Education. Funds advanced by the Federal government of \$288,371 and \$386,924 at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position.

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 4 - STUDENT AND OTHER RECEIVABLES (Continued)**

Activity in the student and other receivables allowance is as follows for the years ended June 30, 2017 and 2016:

|                               | <u>2017</u>         | <u>2016</u>         |
|-------------------------------|---------------------|---------------------|
| Beginning of the year         | \$ 1,429,100        | \$ 1,404,000        |
| Increase                      | 507,438             | 326,020             |
| Write-offs, net of recoveries | <u>(321,538)</u>    | <u>(300,920)</u>    |
| End of year                   | <u>\$ 1,615,000</u> | <u>\$ 1,429,100</u> |

The following summarizes the payment status of loans receivable at June 30, 2017 and 2016:

|                                       | <u>Not in<br/>Repayment</u> | <u>Current</u>    | <u>&lt;270<br/>Days<br/>Past Due</u> | <u>270<br/>Days to<br/>2 Years<br/>Past Due</u> | <u>2 to 5<br/>Years<br/>Past Due</u> | <u>More<br/>Than<br/>5 Years<br/>Past Due</u> | <u>Loans<br/>Fully<br/>Retired</u> | <u>Total</u>      |
|---------------------------------------|-----------------------------|-------------------|--------------------------------------|---|--------------------------------------|---|------------------------------------|-------------------|
| <u>2017</u>                           |                             |                   |                                      |   |                                      |   |                                    |                   |
| Perkins loan fund                     | \$ 53,858                   | \$ 136,667        | \$ 44,151                            | \$ 21,270                                       | \$ 24,722                            | \$ 176,732                                    | \$ (187)                           | \$ 457,213        |
| University loan fund                  | <u>3,000</u>                | <u>-</u>          | <u>-</u>                             | <u>2,238</u>                                    | <u>-</u>                             | <u>-</u>                                      | <u>-</u>                           | <u>5,238</u>      |
|                                       | <u>\$ 56,858</u>            | <u>\$ 136,667</u> | <u>\$ 44,151</u>                     | <u>\$ 23,508</u>                                | <u>\$ 24,722</u>                     | <u>\$ 176,732</u>                             | <u>\$ (187)</u>                    | <u>\$ 462,451</u> |
| Percentage of<br>total loan portfolio | 12%                         | 30%               | 10%                                  | 5%  | 5%                                   | 38%   | 0%                                 | 100%              |
|                                       |                             |                   |                                      |   |                                      |   |                                    |                   |
|                                       | <u>Not in<br/>Repayment</u> | <u>Current</u>    | <u>&lt;270<br/>Days<br/>Past Due</u> | <u>270<br/>Days to<br/>2 Years<br/>Past Due</u> | <u>2 to 5<br/>Years<br/>Past Due</u> | <u>More<br/>Than<br/>5 Years<br/>Past Due</u> | <u>Loans<br/>Fully<br/>Retired</u> | <u>Total</u>      |
| <u>2016</u>                           |                             |                   |                                      |   |                                      |   |                                    |                   |
| Perkins loan fund                     | \$ 95,870                   | \$ 181,032        | \$ 43,793                            | \$ 21,310                                       | \$ 31,882                            | \$ 182,425                                    | \$ (185)                           | \$ 556,127        |
| University loan fund                  | <u>5,075</u>                | <u>546</u>        | <u>1,000</u>                         | <u>-</u>  | <u>2,000</u>                         | <u>7</u>                                      | <u>-</u>                           | <u>8,628</u>      |
|                                       | <u>\$ 100,945</u>           | <u>\$ 181,578</u> | <u>\$ 44,793</u>                     | <u>\$ 21,310</u>                                | <u>\$ 33,882</u>                     | <u>\$ 182,432</u>                             | <u>\$ (185)</u>                    | <u>\$ 564,755</u> |
| Percentage of<br>total loan portfolio | 18%                         | 32%               | 8%                                   | 4%  | 6%                                   | 32%   | 0%                                 | 100%              |

(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 5 - PLEDGES RECEIVABLE**

Unconditional promises to give are recorded as receivables with the revenue assigned to the appropriate net asset category. The university has discounted long-term pledges receivable to their estimated net present value using a discount rate of 4% for the years ended June 30, 2017 and 2016.

Pledge balances are written off at the time they are determined to be uncollectible. New unconditional promises to give are recorded when the pledge is received. The allowance for uncollectible pledges is based on an analysis of delinquent payments and the university's historical experience in collecting outstanding pledges.

Pledges at June 30, 2017 and 2016 are expected to be realized in the following time frame:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| In one year or less                    | \$ 366,240        | \$ 380,050        |
| Between one year and five years        | <u>564,916</u>    | <u>149,165</u>    |
| Subtotal                               | 931,156           | 529,215           |
| Discount to present value              | (48,748)          | (11,324)          |
| Less allowance for unfulfilled pledges | <u>(45,000)</u>   | <u>(38,900)</u>   |
| Total pledges receivable               | <u>\$ 837,408</u> | <u>\$ 478,991</u> |

Activity in the pledges receivable allowance is as follows for the years ended June 30, 2017 and 2016:

|                   | <u>2017</u>      | <u>2016</u>      |
|-------------------|------------------|------------------|
| Beginning of year | \$ 38,900        | \$ 38,900        |
| Increase          | <u>6,100</u>     | <u>-</u>         |
| End of year       | <u>\$ 45,000</u> | <u>\$ 38,900</u> |

**NOTE 6 - INVESTMENTS**

Investments held by the university as of June 30, 2017 and 2016 were as follows:

|   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| Certificates of deposit                 | \$ 41,500            | \$ 41,500            |
| Marketable securities                   | 6,953,100            | 10,222,671           |
| Bank issued common funds                | 25,440,637           | 21,758,672           |
| Alternative investments                 | 3,990,793            | 3,622,881            |
| Beneficial interest in perpetual trusts | <u>3,927,215</u>     | <u>3,883,350</u>     |
| Total investments                       | <u>\$ 40,353,245</u> | <u>\$ 39,529,074</u> |

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 6 - INVESTMENTS** (Continued)

The following schedule summarizes the investment return for the years ended June 30, 2017 and 2016:

|                             | <u>2017</u>                    | <u>2016</u>                  |
|-----------------------------|--------------------------------|------------------------------|
| Dividends and interest      | \$ 985,019                     | \$ 1,008,128                 |
| Net realized gain           | 1,859,792                      | 564,757                      |
| Net unrealized gain/(loss)  | <u>1,836,164</u>               | <u>(1,017,125)</u>           |
| Subtotal investment return  | 4,680,975                      | 555,760                      |
| Fees                        | <u>(215,246)</u>               | <u>(210,065)</u>             |
| <br>Total investment return | <br><u><u>\$ 4,465,729</u></u> | <br><u><u>\$ 345,695</u></u> |

Investment return is reported in the statement of activities as follows for the years ended June 30, 2017 and 2016:

|  | <u>2017</u>                    | <u>2016</u>                  |
|--|--------------------------------|------------------------------|
| Operating revenues   |                                |                              |
| Investment income  | \$ 1,778,386                   | \$ 1,703,227                 |
| Non-operating revenues   |                                |                              |
| Investment gain/(loss) net of amounts<br>designated for current operations | <u>2,687,343</u>               | <u>(1,357,532)</u>           |
| <br>Total investment return  | <br><u><u>\$ 4,465,729</u></u> | <br><u><u>\$ 345,695</u></u> |

**NOTE 7 - ENDOWMENT COMPOSITION**

The university's endowment, excluding funds held in trust for the benefit of the Schingoethe Center for Native American Cultures, is primarily managed by Northern Trust. The endowment is comprised of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

|                                | <u>Unrestricted</u>             | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                    |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| <u>2017</u>                    |                                 |                                   |                                   |                                 |
| Donor-restricted funds         | \$ -                            | \$ 6,665,176                      | \$ 21,826,008                     | \$ 28,491,184                   |
| Funds functioning as endowment | <u>12,209,662</u>               | <u>2,390,260</u>                  | <u>-</u>                          | <u>14,599,922</u>               |
| <br>Total funds                | <br><u><u>\$ 12,209,662</u></u> | <br><u><u>\$ 9,055,436</u></u>    | <br><u><u>\$ 21,826,008</u></u>   | <br><u><u>\$ 43,091,106</u></u> |

(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 7 - ENDOWMENT COMPOSITION** (Continued)

The following schedule summarizes the changes in endowment net assets for the year ended June 30, 2017:

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>2017</u>  |                      |                                   |                                   |                      |
| Net assets, beginning of year                                | \$ 12,386,666        | \$ 7,507,293                      | \$ 20,698,967                     | \$ 40,592,926        |
| Investment return  |                      |                                   |                                   |                      |
| Investment income, net                                       | 203,859              | 365,122                           | -                                 | 568,981              |
| Net realized and unrealized gain                             | <u>1,315,108</u>     | <u>2,281,599</u>                  | <u>-</u>                          | <u>3,596,707</u>     |
| Total investment return                                      | 1,518,967            | 2,646,721                         | -                                 | 4,165,688            |
| Change in beneficial interest<br>in perpetual trust          | -                    | -                                 | 43,865                            | 43,865               |
| Contributions and reclassifications                          | 337,133              | (137,802)                         | 1,083,176                         | 1,282,507            |
| Appropriation of net assets<br>for expenditures              | <u>(2,033,104)</u>   | <u>(960,776)</u>                  | <u>-</u>                          | <u>(2,993,880)</u>   |
| Total contributions, reclassifications<br>and appropriations | <u>(1,695,971)</u>   | <u>(1,098,578)</u>                | <u>1,083,176</u>                  | <u>(1,711,373)</u>   |
| Net assets, end of year                                      | <u>\$ 12,209,662</u> | <u>\$ 9,055,436</u>               | <u>\$ 21,826,008</u>              | <u>\$ 43,091,106</u> |

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

|                                | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>2016</u>                    |                      |                                   |                                   |                      |
| Donor-restricted funds         | \$ (14,267)          | \$ 5,292,302                      | \$ 20,698,967                     | \$ 25,977,002        |
| Funds functioning as endowment | <u>12,400,933</u>    | <u>2,214,991</u>                  | <u>-</u>                          | <u>14,615,924</u>    |
| Total funds                    | <u>\$ 12,386,666</u> | <u>\$ 7,507,293</u>               | <u>\$ 20,698,967</u>              | <u>\$ 40,592,926</u> |

(Continued)



AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 7 - ENDOWMENT COMPOSITION** (Continued)

The following schedule summarizes the changes in endowment net assets for the year ended June 30, 2016:

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>2016</u>  |                      |                                   |                                   |                      |
| Net assets, beginning of year                                | \$ 15,293,315        | \$ 9,781,035                      | \$ 20,361,311                     | \$ 45,435,661        |
| Investment return  |                      |                                   |                                   |                      |
| Investment income, net                                       | 102,380              | 371,380                           | -                                 | 473,760              |
| Net realized and unrealized loss                             | <u>(222,966)</u>     | <u>(206,091)</u>                  | <u>-</u>                          | <u>(429,057)</u>     |
| Total investment return                                      | (120,586)            | 165,289                           | -                                 | 44,703               |
| Change in beneficial interest<br>in perpetual trust          | -                    | -                                 | (445,031)                         | (445,031)            |
| Contributions and reclassifications                          | 166,803              | (402,410)                         | 782,687                           | 547,080              |
| Appropriation of net assets<br>for expenditures              | <u>(2,952,866)</u>   | <u>(2,036,621)</u>                | <u>-</u>                          | <u>(4,989,487)</u>   |
| Total contributions, reclassifications<br>and appropriations | <u>(2,786,063)</u>   | <u>(2,439,031)</u>                | <u>782,687</u>                    | <u>(4,442,407)</u>   |
| Net assets, end of year                                      | <u>\$ 12,386,666</u> | <u>\$ 7,507,293</u>               | <u>\$ 20,698,967</u>              | <u>\$ 40,592,926</u> |

The Board of Trustees of the university has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, 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 is classified as temporarily restricted until such time as those amounts are appropriated for expenditure by the university in a manner consistent with the standard of prudence prescribed by the State of Illinois in its enacted version of UPMIFA.

Return Objectives and Risk Parameters: The university has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Funds with Deficiencies: From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the university to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017. The deficiency as of June 30, 2016 was \$14,267.

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AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 7 - ENDOWMENT COMPOSITION** (Continued)

Internal Financing: The university has adopted a policy of internal financing to support certain large capital projects. A formal promissory note and amortization schedule provides for interest and repayment of funds borrowed from the university's endowment. Such internal financing promotes the university's emphasis on self-reliance and prudent use of debt.

In February 2011, the Aurora University Board of Trustees approved a \$3 million loan from the university endowment to partially fund the construction of the Alumni Hall addition. In May 2016, this note was amended at a 4% interest rate maturing June 30, 2022 with periodic principal payments to begin July 2017.

In June 2012, a \$3,100,000 promissory note to the university's Dunham Endowed Scholarship Fund was executed to partially fund the construction of a new residence hall. In July 2014, this note was amended with a maturity date of August 15, 2019 and 4% interest rate. This loan was fully repaid as of June 30, 2016.

In May 2016, the Aurora University Board of Trustees approved a \$3 million revolving loan from the university endowment to provide the institution flexible sources of liquidity and to support ongoing operations. Draws under this revolving promissory note bear interest at 4% with periodic principal payments, if any, to begin July 2017. The revolving note matures June 30, 2022. There was no balance outstanding against this revolving promissory note at June 30, 2017 or 2016.

The net amount internally financed by these promissory notes totaled \$2,750,000 and \$3,000,000 at June 30, 2017 and 2016, respectively.

**NOTE 8 - PROPERTY AND EQUIPMENT**

The university's property and equipment as of June 30, 2017 and 2016 consisted of the following:

|                                     | <u>2017</u>           | <u>2016</u>           |
|-------------------------------------|-----------------------|-----------------------|
| Land and land improvements          | \$ 23,467,791         | \$ 23,376,881         |
| Buildings and building improvements | 133,083,369           | 130,911,886           |
| Equipment                           | 31,510,525            | 29,249,074            |
| Construction in progress            | <u>9,693,483</u>      | <u>2,559,563</u>      |
| Subtotal property and equipment     | 197,755,168           | 186,097,404           |
| Less accumulated depreciation       | <u>(76,732,979)</u>   | <u>(69,980,960)</u>   |
| Net property and equipment          | <u>\$ 121,022,189</u> | <u>\$ 116,116,444</u> |

June 30, 2017 totals include equipment assets from capital leases with a net book value of \$614,601, and capitalized interest of \$55,619 for buildings and building improvements.

June 30, 2016 totals include equipment assets from capital leases with a net book value of \$342,758, capitalized interest of \$100 for land and land improvements, and capitalized interest of \$59,574 for buildings and building improvements.

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 9 - RETIREMENT PLAN**

The university has established a defined contribution pension plan, which is available to all eligible employees immediately upon date of hire. Participation is voluntary. Benefits are provided by individually insured annuity contracts issued to each participant by TIAA, formerly Teachers Insurance and Annuity Association/College Retirement Equities Fund, or via lump sum, partial payment, or installment payments of the participant's vested interest in his or her account.

The university matches 100% of employee contributions plus an additional 1% of eligible compensation, as defined by the plan, up to a maximum university contribution of 6%. The plan was amended effective October 1, 2016, to change the university matching contribution formula to a discretionary matching contribution. The university suspended the university matching contribution temporarily from October 1, 2016, through June 30, 2017.

The plan was also amended effective November 1, 2016 to add a discretionary non-matching contribution and add a twelve month waiting period for new employees to receive matching and/or discretionary non-matching university contributions.

The amount contributed and charged to expense for the years ended June 30, 2017 and 2016 was \$429,097 and \$1,571,651, respectively.

**NOTE 10 - POSTRETIREMENT BENEFITS**

In addition to providing retirement benefits, the university also provides certain health care benefits to retired employees. All academic and non-academic employees hired prior to April 22, 1996, are entitled to receive health insurance coverage subject to deductibles, copayment provisions, and other limitations, under this plan. The university's policy is to fund the cost of these health benefits in amounts determined at the discretion of the Board of Trustees.

The following sets forth the plan's funded status reconciled with amounts reported in the university's statement of financial position at June 30, 2017 and 2016.

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Change in benefit obligation  |                   |                   |
| Accumulated postretirement benefit obligation (APBO) at beginning of year | \$ 572,913        | \$ 755,219        |
| Net periodic postretirement benefit cost                                  | (58,740)          | (161,354)         |
| Contributions/claims paid during fiscal year                              | <u>(18,360)</u>   | <u>(20,952)</u>   |
| Accrued postretirement benefit liability                                  | <u>\$ 495,813</u> | <u>\$ 572,913</u> |

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 10 - POSTRETIREMENT BENEFITS (Continued)**

Net periodic postretirement benefit cost for the fiscal years ended June 30, 2017 and 2016 included the following components:

|  | <u>2017</u>        | <u>2016</u>         |
|--|--------------------|---------------------|
| Service cost                                   | \$ 4,622           | \$ 6,259            |
| Interest cost                                  | 16,204             | 16,737              |
| Amortization of unrecognized gain for the year | <u>(79,566)</u>    | <u>(184,350)</u>    |
| Net periodic postretirement benefit cost       | <u>\$ (58,740)</u> | <u>\$ (161,354)</u> |

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4% in 2017 and 2016.

**NOTE 11 - ANNUITIES PAYABLE**

The university has established a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed-dollar annual return during their lifetimes. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of the gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as change in value in the statement of activities. Upon death of the donor, any remaining assets are available for the university's use. The present value of the estimated future payments to beneficiaries is calculated based on revised life expectancies using a discount rate of 2.2% to 10.0% for the years ended June 30, 2017 and 2016. There were no gift annuity contributions in fiscal years ended June 30, 2017 and 2016.

**NOTE 12 - LEASES**

The university leases storage facilities, equipment, parking spaces, and educational and office facilities under various operating and capital lease agreements. The expiration dates of the leases expire through December 2023. Lease expense for the years ended June 30, 2017 and 2016 totaled \$617,919 and \$533,953, respectively.

Future minimum lease payments under operating leases as of June 30, 2017 are as follows:

| <u>Year Ending June 30</u> | <u>Amount</u>       |
|----------------------------|---------------------|
| 2018                       | \$ 592,707          |
| 2019                       | 587,650             |
| 2020                       | 542,950             |
| 2021                       | 490,303             |
| 2022                       | 445,410             |
| Thereafter                 | <u>462,689</u>      |
|                            | <u>\$ 3,121,709</u> |

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(Continued)

AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 12 - LEASES (Continued)**

Future minimum lease payments under capital leases as of June 30, 2017 are as follows:

| <u>Year Ending June 30</u> | <u>Amount</u>     |
|----------------------------|-------------------|
| 2018                       | \$ 220,393        |
| 2019                       | 194,350           |
| 2020                       | 154,582           |
| 2021                       | <u>117,746</u>    |
| Subtotal                   | 687,071           |
| Less interest portion      | <u>(131,396)</u>  |
| Net minimum lease payments | <u>\$ 555,675</u> |

Interest expense related to capital leases for years ended June 30, 2017 and 2016 was \$60,666 and \$23,489, respectively.

**NOTE 13 - LINE OF CREDIT**

The university has a line of credit with a commercial bank that permits borrowings of up to \$2,000,000. Interest on borrowings under this agreement is computed at a variable rate based either upon 0.50% plus the bank's base rate or 1.25% plus the adjusted LIBOR for a selected interest period. The line of credit is unsecured and borrowings are payable on demand. No balance was outstanding at June 30, 2017 or 2016.

**NOTE 14 - NOTES PAYABLE**

In October 2016, the university amended and restated its existing note payable dated June 2008, as amended. The loan agreement was amended to permit additional borrowings up to \$5,000,000 to fund various capital projects and extend the termination date to July 1, 2021. Interest on borrowings under this agreement is computed at a variable rate based either upon the bank's base rate or 1.05% plus the adjusted LIBOR for a selected interest period. Principal payments of \$187,500 are due quarterly.

Amounts outstanding under the note and corresponding interest rates as of June 30, 2017 and 2016 were as follows:

| <u>2017</u>         |                 | <u>2016</u>         |                 |
|---------------------|-----------------|---------------------|-----------------|
| <u>Amount</u>       | <u>Interest</u> | <u>Amount</u>       | <u>Interest</u> |
| <u>Borrowed</u>     | <u>Rate</u>     | <u>Borrowed</u>     | <u>Rate</u>     |
| \$ 1,000,000        | 2.10050%        | \$ 2,353,719        | 1.57510%        |
| 3,686,826           | 2.19761%        | 3,000,000           | 1.50795%        |
| <u>3,900,000</u>    | 2.17083%        | <u>3,900,000</u>    | 1.40080%        |
| <u>\$ 8,586,826</u> |                 | <u>\$ 9,253,719</u> |                 |

Interest expense for the years ended June 30, 2017 and 2016 was \$160,863 and \$129,570, respectively.

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(Continued)

AURORA UNIVERSITY  
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June 30, 2017 and 2016

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**NOTE 14 - NOTES PAYABLE (Continued)**

The loan agreement includes certain restrictive covenants including, among others, ratio requirements for debt service coverage and minimum unrestricted and temporarily restricted net asset requirements. As of June 30, 2017, management of the university believes that it was in compliance with these financial covenants.

Future maturities of the notes payable and bonds payable described in Note 15 are as follows:

|            |                      |
|------------|----------------------|
| 2018       | \$ 776,538           |
| 2019       | 750,000              |
| 2020       | 750,000              |
| 2021       | 750,000              |
| 2022       | 5,560,288            |
| Thereafter | <u>25,200,000</u>    |
| Total      | <u>\$ 33,786,826</u> |

**NOTE 15 - BONDS PAYABLE**

The university has the following bonds payable outstanding as of June 30, 2017 and 2016:

|  | Original<br>Amount | <u>2017</u>          | <u>2016</u>          |
|--|--------------------|----------------------|----------------------|
| Illinois Finance Authority<br>(IFA), Series 2002 | \$ 14,000,000      | \$ 13,200,000        | \$ 13,200,000        |
| Economic Development<br>Revenue, Series 2004     | 12,000,000         | <u>12,000,000</u>    | <u>12,000,000</u>    |
|  |                    | <u>\$ 25,200,000</u> | <u>\$ 25,200,000</u> |

Series 2002: In October 2002, the university issued \$14,000,000 in Adjustable Rate Demand Revenue Bonds, Series 2002, through the Illinois Educational Facilities Authority (IEFA), which was succeeded by the Illinois Finance Authority (IFA). Proceeds of the bond issue were used to refund prior bond issues, refinance outstanding notes payable, and to finance various capital expenditures.

The bonds are adjustable rate demand notes, with the rate being determined by the remarketing agent every seven days, subject to a 10% maximum rate. The interest rate on the bonds at June 30, 2017 and 2016 was 0.91% and 0.41%, respectively. The bonds may be converted to a fixed rate at the option of the university. Interest expense for years ended June 30, 2017 and 2016 was \$92,669 and \$18,763, respectively.

The bonds are due March 1, 2032. The bonds may be redeemed at the option of the university at 100% of the principal amount plus accrued interest. The bonds are subject to mandatory redemption in whole upon a determination of taxability or an event of taxability. As demand instruments, in certain events and in the manner set forth in the Loan Agreement, the entire principal amount of this note may be declared due and payable.

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**NOTE 15 - BONDS PAYABLE (Continued)**

The Series 2002 bonds are secured by an irrevocable letter of credit agreement between BMO Harris Bank and the university, in favor of the trustee (Bank of New York), to make drawings for the payment of principal of the bonds when due and up to 59 days interest on the bonds. The letter of credit agreement will expire July 1, 2019, unless extended or renewed. The letter of credit agreement was in the amount of \$13,326,576 at June 30, 2017 and 2016. The bonds will be subject to mandatory redemption in whole on the expiration date of the letter of credit then in effect, unless the provisions of the indenture and the agreement with respect to the provision of a substitute letter of credit have been met, or all bonds have been converted to bear a fixed rate of interest. The Series 2002 are remarketed weekly and in the event the remarketing agent is unable to remarket the bonds, would be "put" back to the bond trustee, who would draw down on the letter of credit to pay down the bonds. The letter of credit agreement would then require the university to begin making principal and interest payments within three months of the draw and to pay off the draw on the letter of credit in quarterly payments over a two-year period.

The letter of credit agreement includes certain restrictive covenants including, among others, ratio requirements for debt service coverage, minimum unrestricted net asset requirements, minimum unrestricted cash and investment requirements, capital expenditures, and additional debt. As of June 30, 2017, management of the university believes that it was in compliance with these financial covenants.

Series 2004: In November 2004, the university issued \$12,000,000 in Adjustable Rate Demand Economic Development Revenue Bonds, Series 2004, through the City of Aurora, Kane, DuPage, Will, and Kendall Counties, Illinois. Proceeds of the bond issue were used to finance various capital expenditures.

The bonds are adjustable rate demand notes, with the rate being determined by the remarketing agent every seven days, subject to a 10% maximum rate. The interest rate on the bonds at June 30, 2017 and 2016 was 0.91% and 0.41%, respectively. The bonds may be converted to a fixed rate at the option of the university. Interest expense for years ended June 30, 2017 and 2016 was \$83,934 and \$16,863, respectively.

The bonds are due March 1, 2035. The bonds may be redeemed at the option of the university at 100% of the principal amount plus accrued interest. The bonds are subject to mandatory redemption in whole upon a determination of taxability or an event of taxability. As demand instruments, in certain events and in the manner set forth in the Loan Agreement, the entire principal amount of this note may be declared due and payable.

The Series 2004 bonds are secured by an irrevocable letter of credit agreement between BMO Harris Bank and the university, in favor of the trustee (Bank of New York), to make drawings for the payment of principal of the bonds when due and up to 35 days interest on the bonds. The letter of credit agreement will expire July 1, 2019, unless extended or renewed. At June 30, 2017 and 2016, the letter of credit agreement was in the amount of \$12,115,069. The bonds will be subject to mandatory redemption in whole on the expiration date of the letter of credit then in effect, unless the provisions of the indenture and the agreement with respect to the provision of a substitute letter of credit have been met, or all bonds have been converted to bear a fixed rate of interest. The Series 2004 are remarketed weekly and in the event the remarketing agent is unable to remarket the bonds, would be "put" back to the bond trustee, who would draw down on the letter of credit to pay down the bonds. The letter of credit agreement would then require the university to begin making principal and interest payments within three months of the draw and to pay off the draw on the letter of credit in quarterly payments over a two-year period.

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AURORA UNIVERSITY  
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**NOTE 15 - BONDS PAYABLE (Continued)**

The letter of credit agreement includes certain restrictive covenants including, among others, ratio requirements for debt service coverage, minimum unrestricted net asset requirements, minimum unrestricted cash and investment requirements, capital expenditures, and additional debt. As of June 30, 2017, management of the university believes that it was in compliance with these financial covenants.

**NOTE 16 - DERIVATIVES**

The university participated in multiple interest rate swap agreements with a financial institution for a total notional amount of \$25,200,000 at June 30, 2017 and \$21,600,000 at June 30, 2016. The purpose of these agreements is to manage the effect of interest rate changes on the financial statements. In fiscal years 2017 and 2016, the university paid \$59,372 and \$226,974, respectively, more than it received in interest under the swap agreements. The difference between interest received and interest paid under the swap agreements is recorded as interest expense in the statement of activities.

The following is a summary of the outstanding positions under these interest rate exchange agreements as of June 30, 2017 and 2016:

| <u>Instrument Type</u>       | <u>Effective Date</u> | <u>Notional Amount</u> | <u>Maturity Date</u> | <u>Rate Paid</u> | <u>Rate Received</u>        |
|------------------------------|-----------------------|------------------------|----------------------|------------------|-----------------------------|
| Floating to fixed rate sw ap | August 5, 2011        | \$ 8,000,000           | August 1, 2016       | 1.570%           | SIFMA Municipal Sw ap Index |
| Floating to fixed rate sw ap | August 4, 2014        | 3,600,000              | August 1, 2017       | 0.900%           | SIFMA Municipal Sw ap Index |
| Floating to fixed rate sw ap | March 2, 2015         | 10,000,000             | March 1, 2018        | 0.949%           | SIFMA Municipal Sw ap Index |
| Floating to fixed rate sw ap | August 1, 2016        | 8,000,000              | August 1, 2021       | 0.920%           | SIFMA Municipal Sw ap Index |
| Floating to fixed rate sw ap | August 1, 2016        | 3,600,000              | August 1, 2019       | 0.700%           | SIFMA Municipal Sw ap Index |

The SIFMA Municipal Swap Index approximated 0.91% and 0.41% at June 30, 2017 and 2016, respectively.

The total fair market value of the university's derivative instruments reflects accumulated estimated (losses)/gains and is reported on the statement of financial position at fair value at June 30, 2017 and 2016:

|  | <u>2017</u>       | <u>2016</u>         |
|--|-------------------|---------------------|
| Interest rate swap agreement asset/(liability) | <u>\$ 162,623</u> | <u>\$ (120,902)</u> |

The gain or loss estimate is based upon the amounts at which such instruments could have been settled with a third party.

The change in fair value of interest rate swap agreements is reported as non-operating revenue on the statement of activities at June 30, 2017 and 2016:

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Change in fair value of interest rate swap agreements | <u>\$ 283,525</u> | <u>\$ 155,749</u> |

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AURORA UNIVERSITY  
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**NOTE 17 - ASSET RETIREMENT OBLIGATION**

The university owns certain buildings that contain asbestos material. A liability of \$532,000 and \$522,000 was recorded for the years ended June 30, 2017 and 2016, respectively, for future asbestos removal. Determination of the recorded liability is based on a number of estimates and assumptions, including abatement cost estimates, discount rate, and estimated dates of abatement.

**NOTE 18 - NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Educational and public service programs          | \$ 4,699,873         | \$ 4,499,267         |
| Student scholarships and aid                     | 6,709,443            | 5,685,813            |
| Campus projects                                  | 2,177,917            | 1,339,786            |
| Unrestricted endowment earnings not appropriated | 638,399              | 555,750              |
| Gifts to be designated                           | <u>382,412</u>       | <u>407,904</u>       |
|  | <u>\$ 14,608,044</u> | <u>\$ 12,488,520</u> |

Permanently restricted net assets are restricted to the following at June 30, 2017 and 2016:

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Investments to be held in perpetuity, the income from which is expendable to support |                      |                      |
| Student scholarships and aid   | \$ 12,820,480        | \$ 13,060,164        |
| Campus projects  | 603,938              | 603,938              |
| Educational and public service programs  | 6,980,755            | 5,871,505            |
| General university support   | <u>2,052,493</u>     | <u>1,795,018</u>     |
|  | <u>\$ 22,457,666</u> | <u>\$ 21,330,625</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

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AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 18 - NET ASSETS (Continued)**

Purpose restrictions accomplished are as follows:

|  | <u>2017</u>             | <u>2016</u>             |
|--|-------------------------|-------------------------|
| Instruction                                | \$ 527,853              | \$ 473,303              |
| Academic support                           | 451,337                 | 505,220                 |
| Public service                             | 378,306                 | 372,504                 |
| Student support                            | 299,456                 | 250,228                 |
| General uses and purposes                  | 70,570                  | 69,644                  |
| Scholarships and aid                       | <u>853,932</u>          | <u>882,687</u>          |
| Released from restrictions, operating      | 2,581,454               | 2,553,586               |
| Acquisition of long-lived assets and other | <u>1,253,357</u>        | <u>6,172,564</u>        |
| <br>Total released from restrictions       | <br><u>\$ 3,834,811</u> | <br><u>\$ 8,726,150</u> |

**NOTE 19 - FAIR VALUE MEASUREMENTS**

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the university's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value as follows:

- Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In some cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

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(Continued)

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 19 - FAIR VALUE MEASUREMENTS** (Continued)

Assets Measured on a Recurring Basis: Financial instruments measured at fair value on a recurring basis are summarized below as of June 30, 2017:

|   | 2017                |                   |                     |                      |                      |
|---|---------------------|-------------------|---------------------|----------------------|----------------------|
|   | <u>Level 1</u>      | <u>Level 2</u>    | <u>Level 3</u>      | <u>NAV</u>           | <u>Total</u>         |
| Investments:                                |                     |                   |                     |                      |                      |
| Marketable securities                       |                     |                   |                     |                      |                      |
| Equities                                    |                     |                   |                     |                      |                      |
| Common stock                                | \$ 590,061          | \$ -              | \$ -                | \$ -                 | \$ 590,061           |
| Mutual funds                                | 6,344,627           | -                 | -                   | -                    | 6,344,627            |
| Real estate investment trusts               | 18,412              | -                 | -                   | -                    | 18,412               |
| Total marketable securities                 | 6,953,100           | -                 | -                   | -                    | 6,953,100            |
| Alternative investments                     | -                   | -                 | -                   | 3,990,793            | 3,990,793            |
| Beneficial interest in perpetual trusts     | -                   | -                 | 3,927,215           | -                    | 3,927,215            |
| Bank issued common funds                    | -                   | -                 | -                   | 25,440,637           | 25,440,637           |
| Certificates of deposit*                    |                     |                   |                     |                      | 41,500               |
| Total investment assets:                    | <u>\$ 6,953,100</u> | <u>\$ -</u>       | <u>\$ 3,927,215</u> | <u>\$ 29,431,430</u> | <u>\$ 40,353,245</u> |
| Other assets/(liabilities)                  |                     |                   |                     |                      |                      |
| Derivatives (interest rate swap agreements) | \$ -                | \$ 162,623        | \$ -                | \$ -                 | \$ 162,623           |
| Total other assets/(liabilities)            | <u>\$ -</u>         | <u>\$ 162,623</u> | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ 162,623</u>    |

\* Investment values are recorded at cost and are not based on Level 1, 2, or 3 inputs.

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AURORA UNIVERSITY  
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**NOTE 19 - FAIR VALUE MEASUREMENTS** (Continued)

Assets Measured on a Recurring Basis: Financial instruments measured at fair value on a recurring basis are summarized below as of June 30, 2016:

|   | 2016                 |                     |                     |                      |                      |
|---|----------------------|---------------------|---------------------|----------------------|----------------------|
|   | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>      | <u>NAV</u>           | <u>Total</u>         |
| Investments:                                |                      |                     |                     |                      |                      |
| Marketable securities                       |                      |                     |                     |                      |                      |
| Corporate bonds                             | \$ -                 | \$ 125,507          | \$ -                | \$ -                 | \$ 125,507           |
| Municipal bonds                             | -                    | 53,115              | -                   | -                    | 53,115               |
| Equities                                    |                      |                     |                     |                      |                      |
| Common stock                                | 449,978              | -                   | -                   | -                    | 449,978              |
| Mutual funds                                | 9,567,175            | -                   | -                   | -                    | 9,567,175            |
| Real estate investment trusts               | 26,896               | -                   | -                   | -                    | 26,896               |
| Total marketable securities                 | 10,044,049           | 178,622             | -                   | -                    | 10,222,671           |
| Alternative investments                     | -                    | -                   | -                   | 3,622,881            | 3,622,881            |
| Beneficial interest in perpetual trusts     | -                    | -                   | 3,883,350           | -                    | 3,883,350            |
| Bank issued common funds                    | -                    | -                   | -                   | 21,758,672           | 21,758,672           |
| Certificates of deposit*                    |                      |                     |                     |                      | 41,500               |
| Total investment assets:                    | <u>\$ 10,044,049</u> | <u>\$ 178,622</u>   | <u>\$ 3,883,350</u> | <u>\$ 25,381,553</u> | <u>\$ 39,529,074</u> |
| Other assets/(liabilities)                  |                      |                     |                     |                      |                      |
| Derivatives (interest rate swap agreements) | \$ -                 | \$ (120,902)        | \$ -                | \$ -                 | \$ (120,902)         |
| Total other assets/(liabilities)            | <u>\$ -</u>          | <u>\$ (120,902)</u> | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ (120,902)</u>  |

\* Investment values are recorded at cost and are not based on Level 1, 2, or 3 inputs.

Inputs and Valuation Techniques: Level 1 financial instruments consist primarily of common stocks, mutual funds, and other securities whose fair values are determined by obtaining quoted prices on nationally recognized security exchanges. The mutual funds have a daily redemption frequency with no redemption notice required.

Level 2 financial instruments consist of corporate and municipal bonds and derivatives. The corporate and municipal bonds are AA+ to A rated securities of varying maturities. The bonds have been measured at fair value which is estimated using quoted market prices or by using quoted market prices of similar securities with similar due dates. The derivative instruments consist of interest rate swaps. Pricing models utilize a series of market inputs (market approach) to determine the present value of future cash flows, with adjustments, as required for credit and liquidity risk, which approximates fair value.

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AURORA UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 19 - FAIR VALUE MEASUREMENTS** (Continued)

Level 3 financial instruments consist of beneficial interest in perpetual trusts. Beneficial interest in perpetual trusts is measured at fair value as determined by the fair value of the underlying trust assets at June 30, 2017 and 2016. This valuation method (income approach) is intended to represent the present value of future distributed income.

Changes in fair values associated with fair value hierarchy Level 3 are as follows for the years ended June 30, 2017 and 2016:

|                                     | Perpetual<br><u>Trusts</u> |
|-------------------------------------|----------------------------|
| Beginning balance, July 1, 2015     | \$ 4,328,381               |
| Change in value of perpetual trusts | <u>(445,031)</u>           |
| Ending balance, June 30, 2016       | 3,883,350                  |
| Change in value of perpetual trusts | <u>43,865</u>              |
| Ending balance, June 30, 2017       | <u><u>\$ 3,927,215</u></u> |

Gains or losses associated with fair value hierarchy Level 3 are shown as the change in value of beneficial interest in perpetual trusts held by third parties in the statement of activities.

Investments at NAV consist of bank issued common funds and alternative investments. The bank issued common funds are investments with various pooled investment funds which, in turn, invest in numerous highly diversified domestic and international securities that are traded in active markets. These securities have been measured at fair value which is based on share prices or NAV as of the last business day of the fiscal year. The university's interest in these funds of funds is generally reported at the NAV as reported by the fund managers. NAV is used as a practical expedient to estimate the fair value of the university's interest. These assets may be redeemed at NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 90 days.

Alternative investments include investments in partnerships managed through Makena Capital Management, LLC (Makena) who, in turn, invest in numerous highly diversified domestic and international funds. Makena offers a pooled investment vehicle, the Makena Endowment Portfolio, which utilizes a multi-asset manager structure. This portfolio records their investments in the underlying funds on the basis of NAV. These fair values are allocated based upon the partnerships' proportionate interest in the underlying funds. The assets of the underlying funds generally consist of readily marketable securities valued at quoted market values and non-marketable securities that are valued at fair values using procedures established by the general partners or investment managers of each of the underlying funds. NAV is used as a practical expedient to estimate the fair value of the university's interest.

Redemption of Makena partnership interests are not permitted prior to an initial two calendar year holding period. The university is permitted to withdraw up to 5% of their interest with Makena per annum as their annual distribution subject to notification on or before March 31 of the year in which the annual distribution is to be withdrawn. The university may withdraw their investment interest greater than 5% subject to a one-year notice period and other terms and conditions outlined in the investment agreement.

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(Continued)

AURORA UNIVERSITY  
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**NOTE 20 - COMMITMENTS AND CONTINGENCIES**

The university entered into construction contracts for which construction was incomplete as of June 30, 2017. These outstanding contracts were for the renovation and construction projects noted below. Commitments are recorded as liabilities as the underlying contracted services are delivered.

Open construction contracts for which construction was incomplete as of June 30, 2017 were:

| <u>Commitments</u>              | <u>Total<br/>Contract Price</u> | <u>Estimated %<br/>of Completion</u> | <u>Estimated Date<br/>of Completion</u> |
|---------------------------------|---------------------------------|--------------------------------------|---|
| Spartan Athletic Park Phase I   | \$ 11,021,000                   | 43%                                  | September 2017                          |
| Stephens Hall Upgrades Phase II | 621,500                         | 9%                                   | August 2017                             |

**NOTE 21 - FUNCTIONAL ALLOCATION OF EXPENSES**

Expenses by functional classification for the years ended June 30, 2017 and 2016 consisted of the following:

|                                    | <u>2017</u>              | <u>2016</u>              |
|------------------------------------|--------------------------|--------------------------|
| Educational program services       |                          |                          |
| Instruction                        | \$ 27,531,096            | \$ 29,523,101            |
| Research                           | -                        | 34,773                   |
| Public service                     | 2,389,530                | 2,493,113                |
| Academic support                   | 4,999,894                | 5,712,151                |
| Student support                    | 14,080,255               | 14,327,319               |
| Auxiliary enterprises              | <u>8,805,652</u>         | <u>8,527,748</u>         |
| Total educational program services | 57,806,427               | 60,618,205               |
| <br>Institutional support          | <br>14,788,058           | <br>15,711,686           |
| Fundraising                        | <u>891,609</u>           | <u>1,011,289</u>         |
| <br>Total functional expenses      | <br><u>\$ 73,486,094</u> | <br><u>\$ 77,341,180</u> |

Voluntary separation plan expenses of \$0 and \$4,216,638 included in non-operating expenses in the statements of activities for the years ended June 30, 2017 and 2016, respectively, are presented above by their functional classification.

Institutional support in the statements of activities includes fundraising costs which are separately presented above. These costs relate primarily to annual and capital fundraising.

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**NOTE 22 - SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. These events and transactions either provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, unrecognized subsequent events). The university has evaluated subsequent events through October 17, 2017, which was the date that these financial statements were issued and determined that there were no significant unrecognized subsequent events through that date.