

NATIONAL LOUIS UNIVERSITY

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

National Louis University
June 30, 2017 and 2016

Contents

Independent Auditor's Report 1

Financial Statements

Statements of Financial Position 3
Statements of Activities 4
Statements of Cash Flows 5
Notes to Financial Statements 6

Independent Auditor's Report

Board of Trustees
National Louis University
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of National Louis University (University), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 University'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 University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Louis University as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Louis University's internal control over financial reporting and compliance.

BKD, LLP

Fort Wayne, Indiana
November 14, 2017

National Louis University
Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 5,438,792	\$ 10,303,784
Student accounts receivable, net	12,096,828	11,090,816
Pledges receivable, net	2,646,000	141,000
Grants and federal awards receivable	2,229,029	1,734,907
Inventories, prepayments and other	1,002,111	896,061
Investments	34,054,209	31,420,202
Perkins loans receivable, net	1,468,676	1,443,011
Land, buildings and equipment, net of accumulated depreciation	<u>36,967,351</u>	<u>37,759,837</u>
Total assets	<u>\$ 95,902,996</u>	<u>\$ 94,789,618</u>
Liabilities		
Deferred tuition and fees	\$ 9,250,100	\$ 9,606,313
Accounts payable and accrued expenses	4,348,971	5,327,270
Grants and fees collected in advance	773,235	1,092,840
Advance from federal government, Perkins Loan Program	1,205,450	1,205,450
Deferred leases payable	2,777,853	3,365,169
Illinois Educational Facilities Authority variable rate demand revenue bonds	<u>20,304,717</u>	<u>21,671,777</u>
Total liabilities	<u>38,660,326</u>	<u>42,268,819</u>
Net Assets		
Unrestricted	40,300,101	38,131,516
Temporarily restricted	4,264,880	4,270,965
Permanently restricted	<u>12,677,689</u>	<u>10,118,318</u>
Total net assets	<u>57,242,670</u>	<u>52,520,799</u>
Total liabilities and net assets	<u>\$ 95,902,996</u>	<u>\$ 94,789,618</u>

National Louis University
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Tuition and fees	\$ 58,544,110	\$ -	\$ -	\$ 58,544,110
Less University assistance	(3,437,925)	-	-	(3,437,925)
Net tuition and fees	55,106,185	-	-	55,106,185
Gifts	374,244	361,557	2,559,371	3,295,172
Grants and contracts	7,326,271	-	-	7,326,271
Sales and services of educational activities	1,895,848	-	-	1,895,848
Investment return designated for operations	970,387	698,687	-	1,669,074
Fund (deficiency transfer) replenishment	20,044	(20,044)	-	-
Sales and services of auxiliary enterprises	289,300	-	-	289,300
Miscellaneous income	157,162	41,513	-	198,675
Net assets released from restrictions	1,642,472	(1,642,472)	-	-
Total revenue, gains and other support	67,781,913	(560,759)	2,559,371	69,780,525
Expenses				
Salaries and wages	33,685,972	-	-	33,685,972
Fringe benefits	8,957,988	-	-	8,957,988
Total compensation	42,643,960	-	-	42,643,960
Occupancy	6,878,367	-	-	6,878,367
Utilities	824,539	-	-	824,539
Supplies and services	14,262,278	-	-	14,262,278
Interest	567,361	-	-	567,361
Depreciation	2,346,150	-	-	2,346,150
Auxiliary	327,867	-	-	327,867
Total expense	67,850,522	-	-	67,850,522
Change in Net Assets Before Other Activities	(68,609)	(560,759)	2,559,371	1,930,003
Other Activities				
Illinois construction grant revenues	779,659	-	-	779,659
Nonoperating investment return (deficit)	1,055,648	554,674	-	1,610,322
Gain (loss) on interest rate swap valuation	401,887	-	-	401,887
Change in Net Assets	2,168,585	(6,085)	2,559,371	4,721,871
Net Assets, Beginning of Year	38,131,516	4,270,965	10,118,318	52,520,799
Net Assets, End of Year	\$ 40,300,101	\$ 4,264,880	\$ 12,677,689	\$ 57,242,670

See Notes to Financial Statements

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 57,849,206	\$ -	\$ -	\$ 57,849,206
(3,481,303)	-	-	(3,481,303)
<u>54,367,903</u>	<u>-</u>	<u>-</u>	<u>54,367,903</u>
402,859	535,212	29,051	967,122
8,088,690	-	-	8,088,690
1,622,913	-	-	1,622,913
994,542	355,805	-	1,350,347
(15,082)	15,082	-	-
324,300	-	-	324,300
156,529	29,957	-	186,486
<u>985,037</u>	<u>(985,037)</u>	<u>-</u>	<u>-</u>
<u>66,927,691</u>	<u>(48,981)</u>	<u>29,051</u>	<u>66,907,761</u>
32,377,163	-	-	32,377,163
<u>8,179,029</u>	<u>-</u>	<u>-</u>	<u>8,179,029</u>
40,556,192	-	-	40,556,192
7,613,520	-	-	7,613,520
843,839	-	-	843,839
16,099,254	-	-	16,099,254
530,828	-	-	530,828
2,275,272	-	-	2,275,272
417,008	-	-	417,008
<u>68,335,913</u>	<u>-</u>	<u>-</u>	<u>68,335,913</u>
(1,408,222)	(48,981)	29,051	(1,428,152)
901,149	-	-	901,149
(1,516,817)	(714,221)	-	(2,231,038)
<u>(239,162)</u>	<u>-</u>	<u>-</u>	<u>(239,162)</u>
(2,263,052)	(763,202)	29,051	(2,997,203)
<u>40,394,568</u>	<u>5,034,167</u>	<u>10,089,267</u>	<u>55,518,002</u>
<u>\$ 38,131,516</u>	<u>\$ 4,270,965</u>	<u>\$ 10,118,318</u>	<u>\$ 52,520,799</u>

National Louis University
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Increase (decrease) in net assets	\$ 4,721,871	\$ (2,997,203)
Items not requiring (providing) operating activities cash flows		
Depreciation	2,346,150	2,275,272
Amortization of debt issuance costs	32,940	32,940
Credit of allowance for doubtful accounts	(275,000)	(350,000)
(Gain) loss on interest rate swap valuation	(401,887)	239,162
Net realized and unrealized (gains) losses on investments	(2,630,077)	1,577,248
Grant revenues restricted for long-term purposes	(779,659)	(901,149)
Gifts restricted for long-term investment	(59,371)	(29,051)
Change in assets and liabilities		
Increase in accounts receivable, net	(1,250,799)	(139,043)
(Increase) decrease in prepayments and other	(106,050)	175,350
(Increase) decrease in pledges receivable	(2,505,000)	50,000
(Decrease) increase in deferred tuition and fees	(356,213)	817,214
Decrease in accounts payable and accrued expenses	(666,861)	(1,195,122)
Decrease in grants and fees collected in advance	(319,605)	(1,286,956)
Net cash used in operating activities	<u>(2,249,561)</u>	<u>(1,731,338)</u>
Investing Activities		
Capital additions, net of retirements	(1,463,215)	(1,769,266)
Proceeds from disposition of asset held for sale	-	2,475,000
Proceeds from sale of investments	11,906,232	6,012,346
Purchase of investments	(11,910,162)	(6,087,710)
Net cash (used in) provided by investing activities	<u>(1,467,145)</u>	<u>630,370</u>
Financing Activities		
Payments on long-term debt	(1,400,000)	(1,400,000)
Decrease in deferred leases	(587,316)	(464,301)
Grant revenues restricted for long-term purposes	779,659	901,149
Gifts restricted for long-term investment	59,371	29,051
Net cash used in financing activities	<u>(1,148,286)</u>	<u>(934,101)</u>
Net Decrease in Cash and Cash Equivalents	(4,864,992)	(2,035,069)
Cash and Cash Equivalents, Beginning of Year	<u>10,303,784</u>	<u>12,338,853</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,438,792</u>	<u>\$ 10,303,784</u>
Supplemental Cash Flows Information		
Cash paid for interest	\$ 563,863	\$ 524,484
Purchase of land, building and equipment in accounts payable	90,449	-

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

National Louis University (University) is a not-for-profit organization established in 1886 and incorporated in 1912 under the laws of the state of Illinois. The University operates a College of Education and a College of Professional Studies and Advancement which consists of a School of Health and Human Services, a School of Social and Behavioral Sciences and a School of Business and Management. Tuition represents the University's primary source of revenue. The University is accredited by The Higher Learning Commission, a Commission of the North Central Association of Colleges and Schools.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents that await long-term investing are included in investments.

At June 30, 2017, the University's cash accounts exceeded FDIC limits.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at fair value. Investment return includes dividends, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized and unrealized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

Student Accounts and Loans Receivable

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Once the student has separated from the University, charges that are past due without payments for three consecutive months and have had no response to the due diligence process are assigned to third-party collection agencies. The University considers as delinquent any receivable that has been assigned to a third-party collection agency and is more than two years old. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of each student. The allowance for doubtful accounts was \$1,775,000 and \$2,050,000 at June 30, 2017 and 2016, respectively.

Loans receivable consist primarily of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of each student. The allowance for doubtful notes was \$222,000 at June 30, 2017 and 2016.

Bond Issuance Costs

Financing costs are amortized over the term of the related debt.

Inventories

Inventories, which consist primarily of books and supplies held for resale, are priced at the lower of cost or market. Cost is determined by deducting the gross profit margin from the retail price.

Property and Equipment

Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is being provided by use of the straight-line method using the half-year convention over the estimated useful lives of the related assets, using the original cost of the assets less salvage value. Leasehold improvements are depreciated over the life of the lease to which the improvements relate.

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Estimated lives and salvage values are as follows for 2017 and 2016:

	Estimated Life	Salvage Value
Vehicles	5 years	10%
Computer equipment	5 years	0%
Instructional equipment	6 years	10%
Furniture and equipment	10 years	10%
Leasehold improvements	10 years	0%
Library books	15 years	10%
Educational, dormitories and other buildings	40 years	15%

Long-Lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2017 and 2016.

Deferred Tuition and Fees

Revenue and expenditures related to classes that start prior to June 30 and end after June 30 are prorated to the two fiscal years before and after June 30 in relation to the class days in each of the respective years.

Temporarily and Permanently Restricted Net Assets

To ensure observance of limitations and restrictions placed on the use of resources available, the University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the University.

For external reporting purposes, however, the University's financial statements have been prepared to focus on the University as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted and permanently restricted as follows:

- **Unrestricted** – net assets that are not subject to donor-imposed restrictions.
- **Temporarily Restricted** – net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Temporarily restricted net assets are generally restricted by the donor for research, scholarships, plant activities and other University operations.

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

- **Permanently Restricted** – net assets that are subject to donor-imposed restrictions to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for scholarships, education and other University operations.

Board-restricted net assets (quasi-endowments) are included in unrestricted net assets.

Tuition Revenue Recognition

For all programs, the University charges tuition in accordance with rates approved by the University's Board of Trustees. The University has several agreements with local school districts, corporations and similar organizations which provide tuition subsidies in exchange for minimum enrollment guarantees and program cost sharing. In addition, the University also provides institutional scholarships and federal financial aid to certain students. Such tuition subsidies and scholarships and federal financial aid have been included in "University assistance" as a reduction to tuition and fees in the statements of activities.

The University acts as an agent in distributing federal and state student financial aid. Such federal and state student financial aid of approximately \$7.0 million and \$4.4 million for 2017 and 2016, respectively, is not reflected in the statements of activities.

Contributions

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

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as unrestricted revenue and net assets.

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

Government Grants

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

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

Illinois Construction Grant Revenues

In 2010, the state of Illinois authorized funds to be distributed to private colleges and universities in the state of Illinois under their Independent Colleges Capital Program (ICCAP) to help offset the cost of certain authorized capital additions that such institutions might have. Since 2010, the University has received \$4.9 million in such funding from the State. The revenue related to such funding is recognized in the attached statements of activities as the related funds are spent on authorized capital additions. Spending of \$779,659 and \$901,149 occurred in fiscal years 2017 and 2016, respectively. At June 30, 2017, \$25,426 of funding had not yet been spent by the University. Such funding will be spent in subsequent years on capital improvements to the University's Chicago campus.

Income Taxes

The University is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Auxiliary Enterprises

Auxiliary enterprises consist primarily of the operations of the residential and food service operations.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the educational programs, management and general, and fundraising categories based on the actual direct expenditures and cost allocations based upon estimates of time spent by University personnel.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements for the adoption of ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were issued.

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Note 2: Investments and Investment Return

The University's investments at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 2,188,169	\$ 1,022,716
* Common stock	5,355,045	4,694,592
Equity funds		
Domestic large cap index funds	4,718,802	4,984,315
International funds	8,285,064	6,389,147
Fixed income funds	6,718,308	7,876,727
Alternative investments		
Hedge fund of funds	4,105,015	4,346,533
Real estate funds	2,048,740	1,772,582
Real assets	635,066	328,190
Other	-	5,400
	<u> </u>	<u> </u>
Total	<u>\$ 34,054,209</u>	<u>\$ 31,420,202</u>

* Industry breakout is provided in Note 12, disclosures about fair value of assets and liabilities.

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

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 649,319	\$ 696,557
Net realized and unrealized gains (losses) on investment reported at fair value	<u>2,630,077</u>	<u>(1,577,248)</u>
	<u>\$ 3,279,396</u>	<u>\$ (880,691)</u>

Total investment return is reflected in the statements of activities as follows:

	<u>2017</u>	<u>2016</u>
Investment return designated for operations	\$ 1,669,074	\$ 1,350,347
Nonoperating investment return (deficit)	<u>1,610,322</u>	<u>(2,231,038)</u>
	<u>\$ 3,279,396</u>	<u>\$ (880,691)</u>

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Alternative Investments

The fair value of the alternative investments that are not publicly traded have been estimated using the net asset value per share of the investment. The alternative investments that are not publicly traded, held at June 30 consist of the following:

June 30, 2017				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge fund	\$ 1,327,415	\$ -	Quarterly	2 months

June 30, 2016				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge fund	\$ 3,273,632	\$ -	Quarterly	2 months

The above amounts reflect an investment in a hedge fund of funds that pursues multiple strategies to diversify risks and reduce volatility. The fund's composite portfolio includes investments in various private investment funds that employ various long/short, macro, activist and absolute return strategies.

Note 3: Pledges Receivable

Pledges receivable at June 30 consisted of the following:

	2017	2016
Less than one year	\$ 2,635,000	\$ 125,000
One to five years	20,000	25,000
	2,655,000	150,000
Less allowance for doubtful pledges receivable	(9,000)	(7,000)
Less present value discount	-	(2,000)
	\$ 2,646,000	\$ 141,000

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Note 4: Land, Buildings and Equipment

The University's land, buildings and equipment are as follows:

	<u>2017</u>	<u>2016</u>
Vehicles	\$ 74,873	\$ 74,873
Computer equipment	3,975,195	4,794,612
Instructional equipment	558,945	558,945
Furniture equipment	6,773,089	6,384,009
Leasehold improvements	8,087,074	8,102,043
Library books	3,868,423	3,818,470
Buildings	42,906,392	42,401,558
	<u>66,243,991</u>	<u>66,134,510</u>
Accumulated depreciation and amortization	<u>(30,781,251)</u>	<u>(29,879,284)</u>
	35,462,740	36,255,226
Land	<u>1,504,611</u>	<u>1,504,611</u>
Total	<u>\$ 36,967,351</u>	<u>\$ 37,759,837</u>

Note 5: Letters of Credit

On August 13, 2004, the University signed an irrevocable standby letter of credit for \$2,500,000 with its primary financial institution. This letter of credit was required by the lease agreement on the University's leased space in Lisle, Illinois. This letter of credit will be outstanding until March 1, 2020. The lease agreement contains provisions whereby the letter of credit may be reduced in various increments through the term of the lease. At June 30, 2017, the amount of this letter of credit was \$1,000,000. There were no borrowings on the letter of credit as of June 30, 2017 and 2016.

On August 1, 2005, the University signed an irrevocable standby letter of credit for \$5,100,000 with its primary financial institution. This letter of credit was required by the lease agreement on the University's leased space in Skokie, Illinois. This letter of credit will be outstanding until July 12, 2021. The lease agreement contains provisions whereby the letter of credit may be reduced in various increments through the term of the lease. At June 30, 2017, the amount of this letter of credit was \$500,000. There were no borrowings on the letter of credit as of June 30, 2017 and 2016.

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Note 6: Debt and Derivative Financial Instrument

Debt at June 30 consists of the following:

	2017	2016
Bonds payable	\$ 20,700,000	\$ 22,100,000
Less unamortized debt issuance costs	(395,283)	(428,223)
	\$ 20,304,717	\$ 21,671,777

On June 29, 1999, the University issued \$42 million in Illinois Educational Facilities Authority Series 1999 bonds (Bonds). The Bonds are variable rate demand revenue bonds. The weighted average interest rate, excluding commitment fees, on the Bonds was .70 percent and .14 percent during 2017 and 2016, respectively.

Concurrent with the issuance of the Bonds, the University entered into a Reimbursement Agreement (Agreement) with a financial institution under which the financial institution issued a renewable letter of credit which has been renewed and currently expires on March 31, 2018. The current \$20,700,000 letter of credit is available to secure the Bonds and to make payments (liquidity advances) in the event that any of the Bonds are subject to an optional or mandatory tender and are not remarketed. A mandatory tender would occur if the letter or credit is not renewed or replaced prior to its expiration date. If any liquidity advances are drawn and the Bonds are not remarketed or reimbursed by the University, the outstanding advances will convert to a term loan. Payments of any outstanding principal under a term loan would be due at the expiration of the Agreement. Any interest on Bonds that are not remarketed is due in monthly installments at rates that vary depending on the credit rating of the financial institution. As of June 30, 2017 and 2016, there were no outstanding liquidity advances or term loans under the Agreement.

The obligations of the University to the financial institution under the Agreement are secured by a pledge by the University of certain of its land, buildings and equipment. The Agreement contains various covenants and restrictions, including a requirement that the University maintain a minimum liquidity ratio and a minimum debt service coverage ratio. Management is not aware of any violations of the covenants for 2017.

The University's long-term variable rate demand bonds are supported with a letter of credit facility. The current letter of credit facility has a due date within one year of the issuance of these financial statements. The University does not anticipate the need to have liquid funds available to pay off the bond at the date the letter of credit facility matures. The University has a commitment letter from a financial institution to refinance its bonds at or near the maturity date, which would eliminate the letter of credit. Management plans to either refinance the bonds in this way or extend the current letter of credit outstanding before the current letter of credit facility expires. Management believes it is probable that such a refinancing or renewal will be successful.

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Variable to Fixed Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, on August 1, 2011, the University entered into a 10-year interest rate swap agreement for its variable rate debt related to the 1999 bond issuance. The agreement provides for the University to receive interest from the counterparty at 68 percent of the one month LIBOR rate and to pay interest to the counterparty at a fixed rate of 2.225 percent on a notional amount of \$10,000,000 at June 30, 2017. The fair value of the interest rate swap agreement at June 30, 2017 and 2016, was \$(418,876) and \$(820,763), respectively, due to reductions in interest rates since the time in which the swap was entered into. These amounts have been recorded as a liability and included in the accounts payable and accrued expenses line on the University's statement of financial position, with the change in value included in other activities on the statements of activities.

The future maturities of long-term debt as of June 30 are as follows by fiscal year:

2017-2018	\$ 1,600,000
2018-2019	1,600,000
2019-2020	1,600,000
2020-2021	1,600,000
2021-2022	1,800,000
Thereafter	<u>12,500,000</u>
	<u>\$ 20,700,000</u>

The University's long-term variable rate demand bonds are supported with a letter of credit facility. The current letter of credit facility has a due date within one year of the issuance of these financial statements. The University does not anticipate the need to have liquid funds available to pay off the bond at the date the letter of credit facility matures. The University has a commitment letter from a financial institution to refinance its bonds at or near the maturity date, which would eliminate the letter of credit. Management plans to either refinance the bonds in this way or extend the current letter of credit outstanding before the current letter of credit facility expires. Management believes it is probable that such a refinancing or renewal will be successful.

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Note 7: Functional Expenses

Expenses by functional classification are as follows:

	<u>2017</u>	<u>2016</u>
Educational programs		
Instruction	\$ 21,971,134	\$ 21,896,080
Public support	7,456,722	8,379,982
Academic support	8,938,493	8,907,643
Student services	16,536,445	16,120,015
Auxiliary enterprises	327,867	417,008
Total educational programs	<u>55,230,661</u>	<u>55,720,728</u>
General institutional	11,471,879	11,579,270
Fundraising	<u>1,147,982</u>	<u>1,035,915</u>
	<u>\$ 67,850,522</u>	<u>\$ 68,335,913</u>

Note 8: Leases

The University leases various facilities under noncancelable operating lease arrangements. These leases expire at various dates through 2025. Rental expense for these leases included in the statements of activities for the years ended June 30, 2017 and 2016, was approximately \$3.7 million and \$3.9 million, respectively.

Future minimum lease payments at June 30, 2017, are as follows by fiscal year:

2017-2018	\$ 4,290,205
2018-2019	3,940,619
2019-2020	3,129,434
2020-2021	2,318,209
2021-2022	319,507
Thereafter	<u>342,179</u>
	<u>\$ 14,340,153</u>

Some of the University's leases contain escalating rent provisions. The University has recorded a liability of \$2,777,853 and \$3,365,169 at June 30, 2017 and 2016, respectively, representing the difference between the recognition of the expense on the leases on a straight-line basis over the life of the leases compared to the actual cash payments that have been made to date under the leases.

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Note 9: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Time restrictions	\$ 73,053	\$ 65,422
Educational purposes	<u>4,191,827</u>	<u>4,205,543</u>
	<u>\$ 4,264,880</u>	<u>\$ 4,270,965</u>

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	<u>2017</u>	<u>2016</u>
Investment in perpetuity, the income of which is expendable to support		
Scholarships	\$ 6,586,078	\$ 4,026,707
Other	<u>6,091,611</u>	<u>6,091,611</u>
	<u>\$ 12,677,689</u>	<u>\$ 10,118,318</u>

Net Assets Released From Restrictions

The following net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2017</u>	<u>2016</u>
Educational purposes	<u>\$ 1,642,472</u>	<u>\$ 985,037</u>

Note 10: Endowment

The University's endowment consists of 35 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

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

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

The composition of net assets by type of endowment fund at June 30, 2017 and 2016, were:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,390)	\$ 2,574,391	\$ 12,677,689	\$ 15,250,690
Board-designated endowment funds	21,310,712	-	-	21,310,712
Total endowment funds	\$ 21,309,322	\$ 2,574,391	\$ 12,677,689	\$ 36,561,402
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (21,434)	\$ 2,098,778	\$ 10,118,318	\$ 12,195,662
Board-designated endowment funds	19,310,951	-	-	19,310,951
Total endowment funds	\$ 19,289,517	\$ 2,098,778	\$ 10,118,318	\$ 31,506,613

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Changes in endowment net assets for the years ended June 30, 2017 and 2016, were:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 19,289,517	\$ 2,098,778	\$ 10,118,318	\$ 31,506,613
Investment return	1,999,761	1,194,343	-	3,194,104
Transfer of investment return for underwater endowments	20,044	(20,044)	-	-
Total investment return	2,019,805	1,174,299	-	3,194,104
Contributions	-	-	2,559,371	2,559,371
Appropriation of endowment assets for expenditure	-	(698,686)	-	(698,686)
Endowment net assets, end of year	<u>\$ 21,309,322</u>	<u>\$ 2,574,391</u>	<u>\$ 12,677,689</u>	<u>\$ 36,561,402</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 19,815,254	\$ 2,790,001	\$ 10,089,267	\$ 32,694,522
Investment return	(510,655)	(350,500)	-	(861,155)
Transfer of investment return for underwater endowments	(15,082)	15,082	-	-
Total investment return	(525,737)	(335,418)	-	(861,155)
Contributions	-	-	29,051	29,051
Appropriation of endowment assets for expenditure	-	(355,805)	-	(355,805)
Endowment net assets, end of year	<u>\$ 19,289,517</u>	<u>\$ 2,098,778</u>	<u>\$ 10,118,318</u>	<u>\$ 31,506,613</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2017 and 2016, consisted of:

	2017	2016
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Illinois UPMIFA	<u>\$ 12,677,689</u>	<u>\$ 10,118,318</u>
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Illinois UPMIFA, with purpose restrictions	<u>\$ 2,574,391</u>	<u>\$ 2,098,778</u>

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Illinois UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$(1,390) and \$(21,434) at June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods, as well as those of Board-designated endowment funds. Under the University's policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark based on a diverse set of standard industry investment indices. Actual returns in a given year may vary depending on the fluctuations in the market.

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

The University has a policy of appropriating for distribution each year a portion of its Board-designated (quasi) endowment funds, while still attempting to grow the balance of such funds. With respect to the permanently restricted funds, the University has historically only spent the earnings and interest generated by this fund. During fiscal year 2017 and 2016, the University utilized spending rates of 5 percent from the designated (quasi) endowment fund and the permanently restricted funds. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 11: Employee Benefits

University employees who have reached 25 years of age and have been employed by the University or another educational institution for at least one year are eligible to participate in and receive a matching contribution from the University in a University sponsored defined contribution retirement plan administered by the Teachers Insurance and Annuity Association. Retirement benefit costs of the University for fiscal years 2017 and 2016 under this plan were approximately \$1,225,000 and \$770,000, respectively.

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** 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 for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

	Fair Value	2017		
		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash equivalents	\$ 2,188,169	\$ 2,188,169	\$ -	\$ -
Equity funds				
Domestic large cap index funds	4,718,802	4,718,802	-	-
International funds	8,285,064	8,285,064	-	-
Common stock				
Consumer discretionary	877,040	877,040	-	-
Consumer staples	378,101	378,101	-	-
Energy	262,233	262,233	-	-
Financials	858,520	858,520	-	-
Healthcare	820,282	820,282	-	-
Industrials	691,157	691,157	-	-
Information technology	1,083,774	1,083,774	-	-
Materials	202,185	202,185	-	-
Telecommunications	173,498	173,498	-	-
Utilities	8,255	8,255	-	-
Total common stock	5,355,045	5,355,045	-	-
Fixed income funds	6,718,308	6,718,308	-	-
Hedge fund of funds (A)	4,105,015	2,777,600	-	-
Real estate funds	2,048,740	2,048,740	-	-
Real assets	635,066	635,066	-	-
Total investments	<u>\$ 34,054,209</u>			
Liabilities				
Interest rate swap agreement	<u>\$ (418,876)</u>	<u>\$ -</u>	<u>\$ (418,876)</u>	<u>\$ -</u>

National Louis University

Notes to Financial Statements June 30, 2017 and 2016

	2016			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash equivalents	\$ 1,022,716	\$ 1,022,716	\$ -	\$ -
Equity funds				
Domestic large cap index funds	4,984,315	4,984,315	-	-
International funds	6,389,147	6,389,147	-	-
Common stock				
Consumer discretionary	789,767	789,767	-	-
Consumer staples	493,283	493,283	-	-
Energy	316,885	316,885	-	-
Financials	781,789	781,789	-	-
Healthcare	624,143	624,143	-	-
Industrials	634,437	634,437	-	-
Information technology	800,451	800,451	-	-
Materials	179,306	179,306	-	-
Telecommunications	66,726	66,726	-	-
Utilities	7,805	7,805	-	-
Total common stock	4,694,592	4,694,592	-	-
Fixed income funds	7,876,727	7,876,727	-	-
Hedge fund of funds (A)	4,346,533	1,072,901	-	-
Real estate funds	1,772,582	1,772,582	-	-
Real assets	328,190	328,190	-	-
Other	5,400	-	-	5,400
Total investments	<u>\$ 31,420,202</u>			
Liabilities				
Interest rate swap agreement	<u>\$ (820,763)</u>	<u>\$ -</u>	<u>\$ (820,763)</u>	<u>\$ -</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

National Louis University

Notes to Financial Statements

June 30, 2017 and 2016

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below. The University has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of securities are the responsibility of the University. The University obtains pricing information to generate fair value estimates on a periodic basis. The University challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States of America.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Level 3 Reconciliations

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Other
Balance, July 1, 2015	\$ 5,400
Change in 2016	—
Balance, June 30, 2016	5,400
Change in 2017	(5,400)
Balance, June 30, 2017	\$ —

National Louis University
Notes to Financial Statements
June 30, 2017 and 2016

Note 13: Risks and Uncertainties

Investments

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Note 14: Commitments

In June 1999, the University entered into a multi-year contract with Ellucian to outsource the operation of its information technology department. On July 1, 2011, the University renegotiated the terms, coverage and costs under this contract and extended the termination date of the contract to June 30, 2014, with the two years thereafter renewable at the option of the University. On December 18, 2013, the University amended this agreement and extended it through December 31, 2016. At the same time, the University reduced the level of services provided by Ellucian under the contract. In January 2017, the University reduced the level of services provided by Ellucian to only help desk support for the next three years and brought the remaining services in house.

Annual payments to Ellucian for these services were \$957,894 and \$1,786,625 in fiscal years 2017 and 2016, respectively.

Remaining contractual payments under the renegotiated agreement total approximately \$441,397 as of June 30, 2017.

Note 15: Litigation

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