UPPER IOWA UNIVERSITY
AND SUBSIDIARIES

Fayette, Iowa

Audit Report on Consolidated Financial Statements
and Federal Awards

As of and for the Year Ended June 30, 2017

UPPER IOWA UNIVERSITY AND SUBSIDIARIES

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Upper Iowa University and Subsidiaries
Fayette, Iowa

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 on our consideration of Upper Iowa University and subsidiaries's internal control over financial reporting and on 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 solely 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 effectiveness of the University's 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 the University's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 27, 2017

UPPER IOWA UNIVERSITY
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 7,504,389	$ 11,617,072
Cash and cash equivalents - restricted	1,325,353	3,208,862
Receivables		
Student accounts, net of allowance for doubtful accounts of $327,000 and $1,191,000	5,140,068	3,169,163
Due from federal agencies	3,094,535	695,564
Other	317,887	61,930
Pledges, net	43,785	18,233
Investments	333,848	1,833,992
Prepaid expenses	599,143	601,015
Inventories	86,740	85,715
Total Current Assets	18,445,748	21,291,546
NONCURRENT ASSETS		
Restricted debt service reserves	-	4,749,194
Pledges receivable, net, less current portion	1,093,202	1,465,376
Long-term investments	17,236,198	14,942,276
Student loans, net of allowance for doubtful notes	199,022	244,358
Beneficial interest in trusts held by others	4,588,851	4,211,904
Land, buildings, library books and equipment, net	86,078,793	88,358,805
TOTAL ASSETS	$ 127,641,814	$ 135,263,459

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 1,311,590	$ 923,401
Accrued wages and related expenses	1,791,423	1,949,577
Accrued expenses	2,700,646	3,483,634
Accrued tax payable	16,569	32,059
Deferred tuition and rent	2,130,359	4,939,533
Deferred revenue	545,455	681,818
Post retirement benefit payable, current portion	45,899	50,828
Bonds payable, current portion	-	1,340,000
Lease payable, current portion	217,023	215,573
Total Current Liabilities	8,758,964	13,616,423
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	69,950,849	61,591,715
Lease payable, net of current portion	376,379	249,486
Post retirement benefit payable, net of current portion	808,132	908,499
Federal student loan funds	135,425	293,332
Total Long-Term Liabilities	71,270,785	63,043,032
TOTAL LIABILITIES	80,029,749	76,659,455
NET ASSETS		
Unrestricted	28,685,858	40,027,972
Temporarily restricted	5,958,035	6,641,200
Permanently restricted	12,968,172	11,934,832
Total Net Assets	47,612,065	58,604,004
TOTAL LIABILITIES AND NET ASSETS	$ 127,641,814	$ 135,263,459

See accompanying notes to consolidated financial statements.

UPPER IOWA UNIVERSITY
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
With Comparative Totals for 2016

	2017 Unrestricted	2017 Temporarily Restricted	2017 Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 64,916,766	$ -	$ -	$ 64,916,766	$ 66,272,547
Less: Scholarships and aids	(15,725,814)	-	-	(15,725,814)	(16,883,331)
Net tuition and fees	49,190,952	-	-	49,190,952	49,389,216
Government grants	253,893	-	-	253,893	274,377
Beneficial interest in trusts distribution	231,076	-	-	231,076	173,240
Private gifts, grants and pledges	401,379	47,581	-	448,960	53,417
Auxiliary enterprises - sales and services	5,348,685	-	-	5,348,685	6,267,294
Investment income	23,114	-	-	23,114	14,010
Endowment spending allocated for operations	-	132,064	-	132,064	-
Other revenue	1,121,535	-	-	1,121,535	830,945
	56,570,634	179,645		56,750,279	57,002,499
Net assets released from restrictions	2,229,420	(2,229,420)	-	-	-
Total Operating Revenues, Gains and Other Support	58,800,054	(2,049,775)	-	56,750,279	57,002,499
OPERATING EXPENSES					
Program expenses					
Instruction	24,485,378	-	-	24,485,378	25,918,249
Academic support	2,964,307	-	-	2,964,307	3,592,982
Student services	9,737,876	-	-	9,737,876	9,330,645
Auxiliary enterprises	6,138,382	-	-	6,138,382	7,324,298
Support expenses					
Institutional support	13,313,914	-	-	13,313,914	12,788,658
Total Operating Expenses	56,639,857	-	-	56,639,857	58,954,832
Change in Net Assets from Operating Activities	2,160,197	(2,049,775)	-	110,422	(1,952,333)
NONOPERATING ACTIVITIES					
Long-term investment income	629,865	1,181,030	-	1,810,895	81,950
Endowment spending allocated for operations	-	(132,064)	-	(132,064)	-
Gain on asset disposal	-	-	-	-	10
Private gifts, grants and pledges	321,332	317,644	555,748	1,194,724	2,877,198
Change in beneficial interest in trusts held by others	-	-	376,947	376,947	(348,489)
Foreign currency translation reserve	(105,066)	-	-	(105,066)	(85,536)
Insurance proceeds	-	-	-	-	25,909
Income tax expense	(88,626)	-	-	(88,626)	(112,368)
Net assets reclassified	(100,645)		100,645	-	-
Change in Net Assets from Nonoperating Activities, before loss on refinancing of bonds	656,860	1,366,610	1,033,340	3,056,810	2,438,674
Loss on refinancing of bonds	(14,159,171)	-	-	(14,159,171)	-
Change in Net Assets from Nonoperating Activities	(13,502,311)	1,366,610	1,033,340	(11,102,361)	2,438,674
Change in Net Assets	(11,342,114)	(683,165)	1,033,340	(10,991,939)	486,341
Net Assets - Beginning of Year	40,027,972	6,641,200	11,934,832	58,604,004	58,117,663
NET ASSETS - END OF YEAR	$ 28,685,858	$ 5,958,035	$ 12,968,172	$ 47,612,065	$ 58,604,004

See accompanying notes to consolidated financial statements.

UPPER IOWA UNIVERSITY
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 66,272,547	$ -	$ -	$ 66,272,547
Less: Scholarships and aids	(16,883,331)	-	-	(16,883,331)
Net tuition and fees	49,389,216	-	-	49,389,216
Government grants	274,377	-	-	274,377
Beneficial interest in trusts distribution	173,240	-	-	173,240
Private gifts, grants and pledges	-	53,417	-	53,417
Auxiliary enterprises - sales and services	6,267,294	-	-	6,267,294
Investment income	14,010	-	-	14,010
Other revenue	830,945	-	-	830,945
	56,949,082	53,417		57,002,499
Net assets released from restrictions	435,721	(435,721)	-	-
Total Operating Revenues, Gains and Other Support	57,384,803	(382,304)	-	57,002,499
OPERATING EXPENSES				
Program expenses				
Instruction	25,918,249	-	-	25,918,249
Academic support	3,592,982	-	-	3,592,982
Student services	9,330,645	-	-	9,330,645
Auxiliary enterprises	7,324,298	-	-	7,324,298
Support expenses				
Institutional support	12,788,658	-	-	12,788,658
Total Operating Expenses	58,954,832	-	-	58,954,832
Change in Net Assets from Operating Activities	(1,570,029)	(382,304)	-	(1,952,333)
NONOPERATING ACTIVITIES				
Long-term investment activities	50,251	31,699	-	81,950
Gain on asset disposal	10	-	-	10
Private gifts, grants and pledges	1,305,053	533,263	1,038,882	2,877,198
Change in beneficial interest in trusts held by others	-	-	(348,489)	(348,489)
Foreign currency translation reserve	(85,536)	-	-	(85,536)
Insurance proceeds	25,909	-	-	25,909
Income tax expense	(112,368)	-	-	(112,368)
Net assets reclassified	127,031	26,613	(153,644)	-
Change in Net Assets from Nonoperating Activities	1,310,350	591,575	536,749	2,438,674
Change in Net Assets	(259,679)	209,271	536,749	486,341
Net Assets - Beginning of Year	40,287,651	6,431,929	11,398,083	58,117,663
NET ASSETS - END OF YEAR	$ 40,027,972	$ 6,641,200	$ 11,934,832	$ 58,604,004

See accompanying notes to consolidated financial statements.

UPPER IOWA UNIVERSITY
AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (10,991,939)	$ 486,341
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,109,939	3,110,939
Amortization of debt issuance costs	15,204	67,507
Amortization of bond discount (premium)	21,431	(29,041)
Change in allowance for uncollectible student receivables	(864,108)	512,251
Change in allowance for pledges receivable	-	(333)
Net (gain) loss on investments	(1,766,743)	8,470
Change in restricted cash reserves	(52,615)	1,088
Change in beneficial interest in trusts held by others	(376,947)	348,489
Unrealized loss on foreign exchange	2,174	1,819
Net loss on asset disposal	-	14,923
Loss on refinancing of bonds	14,159,171	-
Change in assets - (increase) decrease:		
Student accounts receivable	(1,106,797)	(963,071)
Other receivables	(2,654,247)	1,365,007
Pledges receivable for operations	-	5,333
Prepaid expenses	1,872	(412,885)
Inventories	(1,025)	11,012
Change in liabilities - increase (decrease):		
Accounts payable	388,189	(408,646)
Accrued wages and related liabilities	(158,154)	9,348
Accrued expenses	356,696	805,485
Accrued tax payable	(15,490)	(44,780)
Deferred tuition and rent	(2,809,390)	(744,322)
Deferred revenue	(136,828)	(154,178)
Post retirement benefit payable	(105,296)	(200,566)
Gifts and grants for long-term investment	(555,748)	(1,038,882)
Net Cash Flows from Operating Activities	(3,540,651)	2,751,308
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of land, building, library books and equipment	(492,101)	(869,106)
Purchases of investments	(665,319)	(3,610,191)
Proceeds from sales of investments	1,638,284	56,993
Disbursements of loans to students	(11,500)	(13,500)
Repayments of loans by students	56,836	81,616
Net Cash Flows Used by Investing Activities	526,200	(4,354,188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of indebtedness	(3,514,547)	(845,000)
Payment of lease payable	(211,657)	(170,908)
Federal student loan funds	(157,907)	-
Gifts and grants received for long-term investment	902,370	2,449,734
Net Cash Flows from Financing Activities	(2,981,741)	1,433,826
Net Change in Cash and Cash Equivalents	(5,996,192)	(169,054)
CASH AND CASH EQUIVALENTS - Beginning of Year	14,825,934	14,994,988
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 8,829,742	$ 14,825,934

See accompanying notes to consolidated financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization - Founded in 1857, Upper Iowa University (the "University") is a private liberal arts University located in Fayette, Iowa. The University provides student-centered undergraduate and graduate educational programs through flexible, multiple delivery systems in an environment in which diversity is respected, encouraged, and nurtured. These programs are provided at the Fayette, Iowa campus, at off-campus centers throughout Iowa, Arizona, Illinois, Wisconsin, Kansas, Louisiana, and Oklahoma, and with on-line curriculum and international programs. The University provides educational programs to more than 6,200 undergraduate and graduate students around the world.

Upper Iowa University was notified that the Higher Learning Commission (HLC) was placing the University on Notice effective February 23, 2017. While on Notice, Upper Iowa University remains fully accredited, and it has an opportunity to remedy the concerns that lead to the sanction. The period of Notice is not more than two years. A Focus Visit from the HLC is scheduled for the summer of 2018 to address these concerns. The results of the Focus Visit will be presented to the HLC Board of Trustees at their October 2018 meeting, at which time they will make a determination whether the institution has demonstrated that there are no longer any concerns associated with the Criteria for Accreditation and whether the Notice can be removed.

In a separate letter from the HLC President, dated May 2, 2017, UIU was asked to address additional concerns in a report to accompany an Advisory Visit, which took place on June 22 and 23, 2017. A letter from the HLC President dated September 7, 2017 was received by the UIU President describing the findings of the Advisory Visit. A number of concerns that the HLC had in May have now been met, and the HLC President is recommending to the HLC Board of Trustees that we add to the Focus Visit scheduled for 2018, five additional concerns where they would like to see additional evidence of compliance. The final HLC Board determination regarding the Advisory Visit will be issued by the end of October 2017, where we anticipate being informed that UIU is to provide additional information during the 2018 Focus Visit.

Principles of Consolidation - The consolidated financial statements include the accounts of Upper Iowa University, Upper Iowa University - Hong Kong Campus Limited, Upper Iowa University – Malaysia SDN BHD, Upper Iowa University - Malaysia Foundation, and UIU Real Estate Foundation, LLC, all wholly owned subsidiaries of Upper Iowa University, as of and for the year ended June 30, 2017 and 2016. All interrelated balances and significant transactions between the various entities have been eliminated in consolidation.

On December 18, 2015, the UIU Real Estate Foundation, LLC, an Iowa limited liability company (the "Foundation") was created with the University as the sole corporate member. In addition, on August 16, 2016, the University entered into real estate purchase agreement with the Foundation whereas the University shall sell, convey, assign and transfer to the Foundation its real estate assets located in Fayette County, Iowa, legally described within the purchase agreement (the "Property") for a price of $70,310,000 on the closing date, which shall be mutually agreed upon by the parties, but in the event no later than September 1, 2018. At the time of the closing, the Foundation and the University will enter into a sale lease-back agreement where the University will lease from the Foundation the Property for a term of 26 years. As of June 30, 2017, the Foundation does not have any assets and there is no financial activity.

Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rate existing at the statement of financial position date, and income and expenses are translated at the exchange rate existing at the transaction dates. Exchange gains or losses are included in change in net assets from nonoperating activities.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign operations consist of the following at June 30:

	2017	2016
Total assets	$ 2,336,973	$ 1,828,772
Total liabilities	1,185,116	821,081
Total revenues	2,905,088	3,410,110
Total net assets	1,151,857	1,007,691
Total change in net assets	144,166	718,222

Basis of Financial Statements - The accounting policies of the University reflect practices common to universities and are prepared in accordance with accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications – For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. (See Note 2) The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowments, for property, plant and equipment purposes, and for other specific operating purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met by action of the University and/or the passage of time. (See Note 2)

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes. (See Note 2)

Releases from Restrictions - Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed and the law allows the release of the restriction) are reported on the statement of activities as net assets released from restrictions. (See Note 3) Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the statement of activities.

Revenue Recognition - The timing and classification of revenue are summarized below:

Tuition and Fees and Auxiliary Enterprises Revenue - Revenues from tuition and auxiliary enterprises are recognized in the period the goods or services are provided as increases in unrestricted net assets. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contribution Revenue **-** Contributions are recognized as revenues when the donor's commitments are received, as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The University has a conditional promise to receive $1,000,000 related to a revocable trust in an estate and has received a conditional contribution from a food service vendor (see Note 10) at June 30, 2017 and 2016. Gifts of assets other than cash are recorded at their estimated fair value at the date of gift. The University's policy has been to sell donated securities soon after receipt to be able to use the funds for their specified purpose.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions.

Donated services are only recognized when the criteria for recognition are satisfied. No amounts have been reflected in these financial statements.

Contributions of property, plant, and equipment without donor restrictions concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as temporarily restricted revenues. The restrictions are considered to be released as the asset is constructed or if purchased, when it is placed in service.

Investment Gains and Losses **-** Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Income and net gains on investments of endowment and similar funds are reported in the statement of activities as follows:

- as increases in unrestricted net assets for board-designated endowment funds and to restore donor-restricted endowment funds with deficiencies;
- as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets in all other cases.

Losses from investments on donor-restricted endowment funds are reported as decreases in permanently or temporarily restricted net assets to the extent of the prior accumulated earnings of each individual endowment fund, with the remainder reflected as reductions to unrestricted net assets. Losses from investments on board designated endowment funds are reported as decreases in unrestricted net assets.

Cash and Cash Equivalents - The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Certain cash held by the University is restricted for the Perkins Loan Fund and approximates $21,800 and $141,000 at June 30, 2017 and 2016, respectively. Cash held restricted for the McElroy Loan Fund approximates $358,500 and $361,300 at June 30, 2017 and 2016, respectively.

Cash equivalents restricted for debt service purposes are also reflected as restricted on the statement of financial position.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables - Accounts and loans receivable are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of the collectability of the receivables at the end of each year. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate. Bad debts are written-off when deemed uncollectible. Interest income on student loan receivables, fees and costs are recognized when incurred. Receivables are generally unsecured. Government student loan program receivables (Perkins) that become uncollectible can be assigned to the federal government. (See Note 5)

Inventories – Inventories, consisting of books, clothing, gift items, office supplies and sundries, are valued at the lower of cost or market. The inventory value is determined by specific identification.

Investments - Investments in publicly traded securities are stated at quoted market value. Other investments, for which no such quoted market values or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. Changes in fair value are recorded as unrealized gains or losses in the period of change. (See Note 6)

Beneficial Interest in Trusts Held by Others – The beneficial interest in trusts held by others and related contribution revenue are recognized at the date the trusts are established for the present value of estimated future payments to be received. Perpetual trusts are valued based upon the market value of the assets contributed to the trusts which approximates fair value of the beneficial interest in the trusts. The University is entitled to receive annual earnings on its beneficial interest.

Physical Plant and Equipment - Physical plant assets are stated at cost at date of acquisition or market value if donated, less accumulated depreciation. The University typically depreciates its assets on the straight-line basis over estimated useful lives as follows:

Land improvements	20 years
Buildings	45 years
Building improvements	20 - 45 years
Equipment	5 - 15 years
Library materials	8 years
Hong-Kong/Malaysia – equipment	1 - 3 years

Normal repair and maintenance expenses are charged to operations as incurred. Major improvements are capitalized. The University capitalizes physical plant additions and equipment in excess of $5,000.

Impairment of Long-Lived Assets - The University reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Tuition and Rent - Certain revenue related to summer and fall courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Student Loan Funds Refundable - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities on the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are shown as a reduction in the government grants refundable liability on the statement of financial position. (See Note 5)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. (See Note 16)

Income Tax Status - The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the University is not subject to Federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated business activities). The University is also exempt from state income taxes. The foreign subsidiaries are taxable entities in the countries they are located. Accrued tax payable and income tax expense are related to the foreign subsidiaries.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2017 and 2016. The University's tax returns are subject to review and examination by federal and state authorities.

Fund-Raising Expenses - Total fund-raising expense for the years ended June 30, 2017 and 2016 was approximately $879,000 and $902,000, respectively.

Advertising Costs - Advertising costs are generally expensed as incurred. Advertising expense was approximately $2,932,000 and $2,180,000 for the years ended June 30, 2017 and 2016, respectively.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students (Federal Pell grants, Iowa tuition grants and Federal direct loans) are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. As of June 30, 2017 and 2016, the University has amounts due from federal agencies in the amount of $3,094,535 and $695,564, respectively, for grants to specified students.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements Adopted – In April 2015, FASB issued ASU2015-03, *Interest-Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. The University adopted the guidance in fiscal 2017. ASU 2015-03 was applied retrospectively, and as a result, the 2016 debt issuance costs of $1,681,968 were reclassified to conform with the 2017 presentation. The adoption of the standard did not have a significant impact on the University's statement of financial position or results of operations.

In May 2015, FASB issued ASU 2015-07*, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 (fiscal year 2018) with early application permitted. The University elected to adopt the guidance in fiscal year 2017. ASU 2015-07 is to be applied retrospectively, and as a result, the guidance was retrospectively applied to fiscal 2016. The adoption of the standard did not have a significant impact on the University's statement of financial position or results of operations.

New Accounting Pronouncements Not Yet Effective - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The University is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The University is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements Not Yet Effective – (continued)

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

NOTE 2 – RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At June 30, 2017 and 2016, the University's unrestricted net assets were allocated as follows:

	2017	2016
Operations	$ 21,833,906	$ 26,049,950
Board designated endowment funds, long term investments (Note 7)	5,704,376	5,111,200
Other board designated funds	-	1,143,796
Debt service restricted cash	1,068,234	7,560,362
Student loan programs	79,342	162,664
	$ 28,685,858	$ 40,027,972

Temporarily restricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other support	$ 1,376,520	$ 1,296,478
McElroy loan funds	353,535	359,553
Repairs and maintenance	-	1,393,396
Endowment funds		
Earnings not yet appropriated for spending (Note 7)	3,096,180	2,117,231
Pledges	1,131,800	1,474,542
	$ 5,958,035	$ 6,641,200

Permanently restricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Endowment funds (Note 7)	$ 8,374,134	$ 7,713,861
Endowment pledges (Note 4)	5,187	9,067
Beneficial interest in funds held by others	4,588,851	4,211,904
	$ 12,968,172	$ 11,934,832

NOTE 3 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released to unrestricted operating net assets from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended June 30:

	2017	2016
Purpose restriction accomplished:		
Pledge payments and change in allowance	$ 346,622	$ 19,249
Scholarships and Other	1,882,798	416,472
	$ 2,229,420	$ 435,721

NOTE 4 – PLEDGES RECEIVABLE, NET

Pledges receivable include the following unconditional promises to give at June 30:

	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	$ 517,064	$ 657,364
One to five years	800,000	1,018,500
Gross unconditional promises to give	1,317,064	1,675,864
Less: Unamortized discount	(178,232)	(190,410)
Allowance for uncollectible promises	(1,845)	(1,845)
	$ 1,136,987	$ 1,483,609
Reported under current assets	$ 43,785	$ 18,233
Reported under noncurrent assets	1,093,202	1,465,376
	$ 1,136,987	$ 1,483,609

Pledges receivable due within one year are not discounted. Pledges receivable expected to be collected in more than one year have been discounted using a historic rate of 5.00%. As of June 30, 2017 and 2016, net contributions receivable consisted of $1,085,667 and $1,428,409, respectively, for plant projects, $5,187 and $9,067 for endowment, respectively and, $46,133 for both years for programs and operations.

NOTE 5 – CREDIT QUALITY OF STUDENT NOTES RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2017 and 2016, student loans represented 0.3% of total assets each year.

At June 30, student loans consisted of the following:

	2017	2016
Federal government programs	$ 264,973	$ 307,082
Institutional programs (McElroy)	173,549	176,776
	438,522	483,858
Less allowance for doubtful accounts:	(239,500)	(239,500)
Student loans receivable, net	$ 199,022	$ 244,358

Federal student loan funds advanced by the Federal government of $135,425 and $293,332 at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. These amounts are partially offset by related receivables from the Federal government.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan program receivables may be assigned to the U.S. Department of Education (ED). Students may be granted deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by ED.

At June 30, 2017 and 2016, the past due and current amounts under student loan programs were as follows:

	2017	2016
Past due loan receivables:		
1-59 days past due	$ 616	$ 6,511
60-89 days past due	804	7,000
90 days to 1 year past due	14,905	32,712
1 - 5 years past due	73,032	64,986
5+ years past due	159,626	146,283
Total past due	248,983	257,492
Current loan receivables	189,539	226,366
Total student loan receivables, gross	$ 438,522	$ 483,858

NOTE 6 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments are comprised of the following at June 30:

	2017	2016
Investments (current)		
Certificates of deposit (cost)	$ 306,904	$ 1,699,311
Equity	17,783	22,062
Mutual funds	9,161	11,366
Pooled income funds	-	101,253
Total investments (current) (fair value)	26,944	134,681
Total Investments (current)	333,848	1,833,992
Long-term Investments		
Money market funds	270,222	1,694,429
Mutual funds	31,568	31,616
Pooled income funds	16,476,887	12,799,263
Private equity funds	457,521	416,968
Total long-term investments (fair value)	17,236,198	14,942,276
Total investments	$ 17,570,046	$ 16,776,268

The following schedule summarizes the return on investments during 2017 and 2016 and its classification on the statement of activities.

	2017	2016
Interest and dividends, net of investment expenses of $54,000 and $56,800, respectively	$ 67,266	$ 81,069
Net gain on investments and other assets	1,766,743	14,891
Total gain on investments	$ 1,834,009	$ 95,960
Operating		
Interest and dividends	$ 23,114	$ 14,010
Nonoperating		
Interest and dividends, net	332	166
Gain on other investments	54,462	33,672
Interest and dividends on endowments, net	43,820	66,893
Gain (loss) on endowments	1,712,281	(18,781)
	1,810,895	81,950
Total return on investments	$ 1,834,009	$ 95,960

NOTE 6 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories. :

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entities on data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include money market funds, mutual funds, equity, pooled income - fixed income funds, and pooled income - equity funds for which quoted prices are readily available.

Level 3 - Level 3 assets include funds administered by a third party for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

Certain alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value. The University has estimated the fair value of these funds by using the NAV provided by the investee. The University adopted ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* during the year ended June 30, 2017. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

Except for the implementation of ASU 2015-07, there have been no changes in the techniques and inputs used as of June 30, 2017 and 2016.

NOTE 6 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments (current)				
Mutual funds	$ 9,161	$ 9,161	$ -	$ -
Equity	17,783	17,783	-	-
Total Investments (current)	26,944	26,944	-	-
Long-term investments				
Money market funds	270,222	270,222	-	-
Mutual funds	31,568	31,568	-	-
Pooled income – fixed income funds				
Corporate	698,544	698,544	-	-
Government	2,504,188	2,504,188	-	-
Inflation protected	655,285	655,285	-	-
Mortgage/asset backed	360,902	360,902	-	-
Pooled income – equity funds				
International	5,722,656	5,722,656	-	-
Growth	3,688,188	3,688,188	-	-
Value	1,424,994	1,424,994	-	-
Emerging market	1,020,069	1,020,069	-	-
Small cap and other	402,061	402,067	-	-
Total Long-term Investments	16,778,677	16,778,683	-	-
Beneficial interest in trusts held by others	4,588,851	-	-	4,588,851
Total Investments by valuation hierarchy	21,394,472	$ 16,805,621	$ -	$ 4,588,851
Investments measured at net asset value				
Private equity – international funds	457,521			
Total Assets at Fair Value	$ 21,851,993			

NOTE 6 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments (current)				
Money market funds	$ 101,253	$ 101,253	$ -	$ -
Mutual funds	11,366	11,366	-	-
Equity	22,062	22,062	-	-
Total Investments (current)	134,681	134,681	-	-
Long-term investments				
Money market funds	1,694,429	1,694,429	-	-
Mutual funds	31,616	31,616	-	-
Pooled income – fixed income funds				
Corporate	593,643	593,643	-	-
Government	2,290,744	2,290,744	-	-
Inflation protected	614,034	614,034	-	-
Mortgage/asset backed	367,590	367,590	-	-
Pooled income – equity funds				
International	4,491,868	4,491,868	-	-
Growth	2,087,724	2,087,724	-	-
Value	1,028,178	1,028,178	-	-
Emerging market	875,425	875,425	-	-
Small cap and other	450,057	450,057	-	-
Total Long-term Investments	14,525,308	14,525,308		-
Beneficial interest in trusts held by others	4,211,904	-	-	4,211,904
Total investments by fair value hierarchy	$ 18,871,893	$ 14,659,989	$ -	$ 4,211,904
Investments measured at net asset value				
Private equity – international funds	416,968			
Total Assets at Fair Value	$ 19,288,861			

NOTE 6 – INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

	Balance June 30, 2016	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out) of Level 3	Balance June 30, 2017
Assets						
Beneficial interest in trusts held by others	$ 4,211,904	$ 608,023	$ -	$ (231,076)	$ -	$ 4,588,851

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets measured at fair value still held at June 30, 2017.	$ 376,947

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

	Balance June 30, 2015	Net realized and unrealized losses	Purchases	Sales	Net transfers in (out) of Level 3	Balance June 30, 2016
Assets						
Beneficial interest in trusts held by others	$ 4,560,393	$ (175,249)	$ -	$ (173,240)	$ -	$ 4,211,904

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to assets measured at fair value still held at June 30, 2016.	$ (348,489)

NOTE 7 – ENDOWMENT

The University's endowment consists of approximately 90 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The University's Board of Trustees has interpreted the Iowa State Prudent Management of Institutional Funds Act (SPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The University's Board of Trustees has determined it is prudent to preserve the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets (a) the original value of the 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 a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University through the Board of Trustee's approval of the annual budget, which is inclusive of the spending rate for its endowment funds established pursuant to the University's spending policy. See Note 1 for further information on net asset classifications.

Funds functioning as endowment have also been established by the Board of Trustees as long-term reserves for operations. Funds functioning as endowment differ from true endowment because any portion of these funds may be expended, and accordingly are classified as unrestricted net assets.

Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,096,180	$ 8,374,134	$ 11,470,314
Board-designated endowment funds	5,704,376	-	-	5,704,376
Total endowment net assets	$ 5,704,376	$ 3,096,180	$ 8,374,134	$ 17,174,690

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,117,214	$ 7,713,861	$ 9,831,076
Board-designated endowment funds	5,111,200	-	-	5,111,200
Total endowment net assets	$ 5,111,200	$ 2,117,214	$ 7,713,861	$ 14,942,276

NOTE 7 – ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 5,111,200	$ 2,117,214	$ 7,713,862	$ 14,942,276
Investment return and net appreciation	593,176	1,111,030	-	1,704,206
Transfer to endowment		-	-	
Contributions	-	-	559,627	559,627
Appropriation of endowment assets for:				
Operating expenditures	-	(132,064)	-	(132,064)
Other changes:				
Reclassifications			100,645	100,645
Endowment net assets, June 30, 2017	$ 5,704,376	$ 3,096,180	$ 8,374,134	$ 17,174,690

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ 4,070,668	$ 2,058,902	$ 5,432,020	$ 11,561,590
Investment return and net appreciation	16,413	31,699	-	48,112
Transfer to endowment	1,155,842	-	-	1,155,842
Contributions	-	-	2,435,485	2,435,485
Appropriation of endowment assets for:				
Operating expenditures	-	-	-	-
Other changes:				
Reclassifications	(131,723)	26,613	(153,644)	(258,754)
Endowment net assets, June 30, 2016	$ 5,111,200	$ 2,117,214	$ 7,713,861	$ 14,942,275

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. There were no deficiencies of this nature as of June 30, 2017 and 2016.

Return Objectives and Risk Parameters - The University has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that strive to provide a source of income for spending that is reasonably stable and predictable from year-to-year, while seeking to preserve capital, maintain the purchasing power of the endowment assets, and prudently earn the highest possible rate of return consistent with the University's ability to accommodate risk. Endowment assets include those assets of donor-restricted funds that the University intends to hold indefinitely or for a donor-specified period(s) as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds annual distributions with acceptable levels of risk.

NOTE 7 – ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make quarterly distributions, while growing the funds if possible, in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Board of Trustees designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. In developing its spending policy, the University considers certain of the following factors which it determines relevant:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University.

The University has a policy of appropriating for distribution the interest and dividend income generated from the investments quarterly. In establishing this policy, the University considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which are to be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The University expects the current spending policy to allow its endowment funds to grow over the long-term, which is consistent with the University's objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

At June 30, 2017 and 2016, property, plant and equipment consisted of the following:

	2017	2016
Land	$ 3,032,284	$ 2,987,284
Artwork	760,254	760,254
Construction in process	152,487	651,965
Land improvements	8,702,827	8,674,097
Buildings and improvements	99,552,196	98,719,503
Equipment and vehicles	11,675,125	11,404,287
Library materials	1,573,477	1,573,477
Leasehold improvements	193,609	42,411
UIU Hong Kong leasehold improvements and equipment	346,511	343,391
UIU Malaysia improvements and equipment	39,420	42,080
	126,028,190	125,198,749
Less: Accumulated depreciation	(39,949,397)	(36,839,944)
	$ 86,078,793	$ 88,358,805

Construction in process as of June 30, 2017 consists of work on a football stadium project of $7,904, Ideal Building renovation of $77,525, and two Library projects totaling $67,058.

NOTE 9 – ACCRUED EXPENSES

At June 30, 2017 and 2016, accrued expenses consisted of the following:

	2017	2016
Interest	$ 237,115	$ 1,136,138
Funds held for others	248,035	142,212
Other	2,215,496	2,205,284
	$ 2,700,646	$ 3,483,634

The University is subject to the usual contingencies in the normal course of operations relating to the performance of its task under the various services delivered. Management has recorded an estimate for loss contingencies that have been deemed both probable and estimable. This amount has been included in the table above. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the consolidated financial position of the University.

NOTE 10 – DEFERRED REVENUE

The change in the University's deferred revenue related to funds received under a food service financial agreement for the years ended June 30, 2017 and 2016 is composed of the following:

	2017	2016
Balance, beginning of year	$ 681,818	$ 818,182
Portion of gift earned	(136,363)	(136,364)
Balance, end of year	$ 545,455	$ 681,818

NOTE 11 – RETIREMENT PLANS AND POSTRETIREMENT HEALTH BENEFITS

Retirement Plans

The University has certain contributory defined contribution retirement plans for employees. The plans are administered by Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) for both academic and nonacademic personnel. Substantially all employees who have completed one year of service (which includes at least 1,000 hours of service) are eligible to participate in the University's contribution after meeting certain eligibility requirements.

Under the University's defined contribution retirement plans, the benefits a participant will receive depend solely on the amount contributed to the participant's account, and the returns earned on investments of those contributions.

Postretirement Health Benefits

The University provides funds for postretirement healthcare benefits of eligible retirees. In order to participate, benefits eligible employees must retire from the University at age 59½ or older with at least 5 years of service. Benefits terminate at age 65. These benefits are funded on a pay as you go basis. Effective February 1, 2013, this was frozen and no new members are eligible for this benefit plan.

Accrued postretirement benefit obligation recognized in the statement of financial position are as follows for the years ended June 30:

	2017	2016
Current liabilities	$ 45,899	$ 50,828
Noncurrent liabilities	808,132	908,499
Accrued postretirement benefit obligation	$ 854,031	$ 959,327

It is reasonably possible that changes in the recorded liability could occur in the near term and that actual benefits could differ from the estimates and could have a material impact on the financial statements.

At June 30, 2017, there are six retirees receiving benefits. Benefits expected to be paid for each of the five years subsequent to June 30, 2017 for these retirees are estimated to be: $45,600, $45,600, $40,600, $22,900 and $5,700, respectively.

NOTE 11 – RETIREMENT PLANS AND POSTRETIREMENT HEALTH BENEFITS (CONTINUED)

The following is a reconciliation of the benefit obligation and the value of plan assets at June 30:

	2017	2016
Change in projected benefit obligation		
Benefit obligation at beginning of year	$ 959,327	$ 1,159,893
Service cost	62,638	83,514
Interest cost	39,381	46,684
Actuarial loss (gain)	(161,416)	(279,936)
Benefits paid	(45,899)	(50,828)
Projected benefit obligation at end of year	$ 854,031	$ 959,327
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	45,899	50,828
Benefits paid	(45,899)	(50,828)
Fair value of plan assets at end of year	$ -	$ -
Funded Status		
Unfunded status at end of year	$ (854,031)	$ (959,327)

The estimated interest cost and service cost for the year ending June 30, 2018, are as follows:

	2018
Components of Net Periodic Benefit Cost	
Service cost	$ 49,548
Interest cost	35,161
Amortization of net (gain) loss	(73,622)
Net Periodic Pension Cost	$ 11,087

The above assumptions and calculations are based on census data as of June 30, 2017 and other information as of the measurement date for the plan. The unfunded status above represents the obligation for the retirees and the current service cost for eligible employees at June 30, 2017. A 4% per annum medical trend rate was assumed. A discount rate and expected return on plan assets of 4.5% per annum was used to determine the net periodic benefit cost.

The effect of a 1% increase in the assumed medical trend rate would increase the service cost by approximately $4,516, and the interest cost by approximately $3,369. Increasing the assumed medical trend rate by 1% would increase the accumulated postretirement benefit obligation as of June 30, 2017, by approximately $74,861.

NOTE 12 – LONG-TERM DEBT

Bonds payable consisted of the following at June 30:

	2017	2016
IHELA Private College Facility Revenue and Refunding Bonds, (Upper Iowa University Project), Series 2010, interest rates from 3% to 6%	$ -	$ 41,615,000
IHELA Private College Facility Revenue Bonds, (Upper Iowa University Project), Series 2012, interest rates from 3% to 5%	-	22,495,000
IHELA Private College Facility Revenue Anticipation Notes, (Upper Iowa University Project), Series 2016, due September 1, 2018, interest rate 1%	70,940,000	-
Total Bonds Payable	70,940,000	64,110,000
Discount on Series 2010 Bonds	-	(84,833)
Premium on Series 2012 Bonds	-	588,516
Discount on Series 2016 Notes	(578,649)	-
Unamortized issuance costs on 2016 Notes	(410,502)	(1,681,968)
Net Bonds Payable	69,950,849	62,931,715
Bonds payable, current portion	-	(1,340,000)
Bonds payable, long-term portion	$ 69,950,849	$ 61,591,715

On August 16 2016, the Iowa Higher Education Loan Authority issued Private College Facility Revenue Anticipation Notes, Series 2016 on behalf of the University totaling $70,940,000 (the “2016 Notes”). The 2016 Notes are secured with Fayette Campus assets and tuition receipts. Upon issuance, the 2016 Notes were placed in an escrow fund to be used to legally defease the University’s 2010 and 2012 Bonds. The 2016 Notes have a fixed interest rate of 1% with interest payable semiannual on March 1 and September 1, commencing on March 1, 2017. The 2016 Notes are due on September 1, 2018 and no principal payments are required until then. On September 1, 2018, the University will enter into a loan with the United States Department of Agriculture (USDA) in the amount of $75,010,000 whereas the proceeds will be used to pay off the 2016 Notes. The USDA loan will bear an interest rate no greater than 2.75%. As a result of the refinancing in fiscal 2017, the University incurred a loss on bond refinancing in the amount of $14,159,171 which is recorded as a non-operating loss in the consolidated statement of activities and is removed from net cash flows from operating activities as a non-cash loss in the statement of cash flows. In addition, management of the University has calculated that the future interest expense savings to the University as a result of the refinancing will be approximately $12 million.

The 2010 and 2012 bonds also required, among other covenants, the maintenance of certain equity and debt service coverage ratios. At June 30, 2016, the University was in compliance with those ratios.

The University adopted ASU 2015-03, Interest – Imputation of interest (subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, during the year ended June 30, 2017. Under the new guidance, debt issuance costs related to a recognized debt liability are presented as a direct reduction to the carrying amount of that debt liability. As required by the new guidance, the amendments were applied retrospectively to the year ended June 30, 2017. Costs of issuance are deferred and amortized over the term of the bonds. Future amortization is expected to approximate $36,650 annually.

NOTE 13 – LINE OF CREDIT

The University had an unsecured variable rate revolving line of credit in the amount of $1 million that bears interest at the lender's prime rate plus points over the index, currently at 4.5% per annum. As of June 30, 2016 there was no outstanding balance on this line of credit. This line of credit was available through May 28, 2017. On September 5, 2017, this line of credit was renewed for $1 million, bearing an interest rate at 1% over the prime rate, currently at 4.25% per annum. This line of credit matures on November 30, 2018. As of June 30, 2017, there was no outstanding balance on this line of credit.

The University has an irrevocable standby letter of credit for $250,000 issued on December 12, 2016 and expiring on December 14, 2017 for the benefit of the US Department of Education.

NOTE 14 – CAPITAL LEASE OBLIGATIONS

The University leases certain equipment under capital leases. The capital lease obligations are secured by the leased equipment.

Capitalized cost and accumulated amortization for the equipment is as follows at June 30, 2017:

	2017	2016
Leased equipment	$ 1,264,995	$ 959,679
Less: Accumulated amortization	(457,770)	(337,909)
Net	$ 807,225	$ 621,770

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the minimum lease payments as of June 30, 2017:

Year Ending June 30:	
2018	$ 217,023
2019	200,848
2020	68,000
2021	68,000
2022	56,667
Total minimum lease payments	610,538
Less: Amount representing interest	(17,136)
Present value of minimum lease payments	$ 593,402

Amortization expense is included with depreciation expense in the financial statements.

NOTE 15 – OPERATING LEASE COMMITMENTS

The University leases office space in Fayette and space for classes and offices at various centers that expire at various dates through August 2022. These leases generally contain renewal options and require the University to pay executory costs such as maintenance and insurance. Total rent expense for all operating leases were approximately $1,590,000 and $1,460,000 for the years ended June 30, 2017 and 2016, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year at June 30, 2017 are approximately:

Year Ending June 30:	
2018	$ 1,258,000
2019	842,000
2020	834,000
2021	839,000
2022	364,000
Total	$ 4,137,000

NOTE 16 – ALLOCATION OF EXPENSES

The University allocated the following operating expenses to program and support functions, as displayed on the statement of activities, for the years ended June 30, 2017 and 2016 as follows:

	2017	2016
Operating expenses allocated:		
Interest expense	$ 655,523	$ 3,473,972
Operation and maintenance of plant	2,606,071	2,247,016
Depreciation	3,106,102	3,108,087
	$ 6,367,696	$ 8,829,075

Depreciation expense of $3,837 and $2,852 for the years ended June 30, 2017 and 2016, respectively included in the subsidiaries financial statements has not been allocated.

NOTE 17 – RELATED PARTY TRANSACTIONS

As of June 30, 2017 and 2016, approximately $1,251,000 and $1,602,000, respectively, of contributions receivable were due from members of the Board of Trustees. Contribution revenue from members of the Board of Trustees totaled approximately $68,000 and $75,000 for the years ending June 30, 2017 and 2016, respectively. Board members are not compensated.

NOTE 18 – CONCENTRATIONS

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, contributions receivable (see Note 4) and notes receivable. Cash, cash equivalents and investment holdings are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits. The University has not experienced any losses on such accounts and management believes the University is not exposed to any significant credit risk related to those accounts. Investments are diversified in order to reduce credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

NOTE 19 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2017	2016
Interest paid	$ 1,554,546	$ 3,488,055
Income taxes paid	104,116	153,873
Noncash Investing and Financing Activities		
Equipment purchased through issuance of capital lease	340,000	347,667
Summary of 2016 Note Issuance		
Proceeds from 2016 Notes *	70,940,000	
Discount on 2016 Notes *	(600,080)	
Debt service reserve funds (2010 and 2012 issues) *	4,801,809	
Debt service restricted cash and use of other University funds	4,945,170	
Deposit to escrow for legal defeasance of 2010 and 2012 bonds *	(78,230,570)	
Deposit to debt service account for 2016 Notes	(1,430,623)	
Debt issuance costs *	(425,706)	
	$ –	

* Amounts are noncash financing activities on the consolidated statement of cash flows.

NOTE 20 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 27, 2017 which is the date that the financial statements were approved and issued.

In July 2017, several buildings on the Fayette Campus sustained damage due to flooding. Losses incurred are all expected to be covered by insurance.

In September 2017, the University entered into a 10 year operating lease, commencing November 1, 2017, with total base rent of approximately $3,487,000 over the 10 year period.

UPPER IOWA UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER		
U.S. Department of Education		
Federal Pell Grant Program	84.063	$ 8,647,654
Federal Supplemental Educational Opportunity Grants	84.007	275,207
Federal Work-Study Program	84.033	226,796
Federal Perkins Loan Program	84.038	315,832
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	106,435
Federal Direct Student Loans	84.268	34,824,526
Total Student Financial Assistance Cluster		44,396,450
OTHER PROGRAMS		
U.S. Department of Justice		
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	45,189
Total U.S. Department of Justice		45,189
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 44,441,639

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Upper Iowa University (the "University") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The University has elected not to use the 10% de minimis indirect cost rate for all federal grants allowed under the Uniform Guidance.

NOTE 4 - FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program (CFDA No 84.038) is administered directly by the University, and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Federal Perkins loans outstanding at June 30, 2017 totaled $264,973.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Upper Iowa University
Fayette, Iowa

We have audited, in accordance with the 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, the consolidated financial statements of Upper Iowa University and subsidiaries (the "University"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Upper Iowa University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 27, 2017

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Upper Iowa University
Fayette, Iowa

Report on Compliance for the Major Federal Program

We have audited Upper Iowa University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2017. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on the Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003. Our opinion on the major federal program is not modified with respect to these matters.

Upper Iowa University's Response to Findings

The University's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002, that we consider to be a material weakness.

Upper Iowa University's Response to Finding

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 23, 2018

UPPER IOWA UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 516(a) of the Uniform Guidance?	Yes

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2017-001: Significant Deficiency - Internal Controls over Financial Reporting

Repeat of prior year finding 2016-001

Criteria

Management is responsible for controls over the year-end financial reporting process including the preparation of the consolidated financial statements and schedule of expenditures of federal awards.

Condition

Management continued to require our assistance with the preparation of the draft consolidated financial statements, specifically as it relates to determination of net asset classification, releases and transfers and the schedule of expenditures of federal awards. However, management took ownership of, reviewed, approved, and accepted responsibility for those consolidated financial statements prior to their issuance.

Cause

The University has had difficulty with creating a system to report net assets by class, which included determining the releases between net asset classes, the classification of contribution revenue and receivables between the net asset classes and between current and noncurrent operations, and reconciling the endowment activity.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2017-001: Significant Deficiency - Internal Controls over Financial Reporting (Continued)

Effect

Without a system to appropriately track net assets by class, the risk exists that the consolidated financial statements including the schedule of expenditures of federal awards will be inaccurate or incomplete.

Recommendation

The University should implement procedures to monitor and record activity into the correct net asset class and current and noncurrent operating categories. This would benefit the University by reducing the year-end financial reporting burden, including better monitoring of temporarily restricted gifts, endowment investments and the ability to identify underwater endowment investments. The University should also implement procedures to gather the amounts to be reported on the SEFA as well as having those amounts reviewed and approve before the SEFA is finalized.

Management's Response

Management concurs with this finding. The accounting team has identified the root cause of the issue with the net asset classifications and will work to resolve this before the end of the current fiscal year. Resolving this issue will help with the releases between asset classifications and enable the funds to be balanced. Management has created a spreadsheet to track releases throughout the fiscal year. Fiscal year 2017 was the first year that the university received federal grants outside of financial aid and needed guidance with the SEFA. This assistance will not be needed going forward as the accounting team now understands the requirement.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-002: Material Weakness - Withdrawals and Return of Title IV funds

Federal Program - Federal Pell Grant Program, Federal Direct Student Loans
Federal Agency - U.S. Department of Education
Pass-Through Entity - Not applicable
CFDA Number - 84.063, 84.268
Federal Award Number - P063P161449, P268K171449
Federal Award Year - June 30, 2017

Repeat of prior year finding 2016-003

Criteria

The Uniform Guidance requires recipients of federal awards to administer its federal programs with an adequate system of internal controls over applicable compliance requirements.

In addition, when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period, Title IV regulations (34 CFR 668.22) require the University to determine the amount of Title IV grant or loan assistance that the student earned as of the withdrawal date and return the unearned portion of the grant or loan to the Title IV programs as soon as possible but no later than 45 days after the withdrawal date.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2017-002: Material Weakness - Withdrawals and Return of Title IV funds (Continued)

Condition

During the year, there was not an adequate system of controls in place that provided for an independent review of the refund calculations.

The federal aid for two students was not returned within 45 days from the date of withdrawal. Furthermore, one student tested was inadvertently disbursed funds after withdrawal. These funds were fully returned 9 days after the disbursements occurred.

Questioned Costs

The amount of late refunds for the two students totaled $7,140. The amount of funds inadvertently disbursed for the one student totaled $891.

Context

Population and sample sizes are:

Population Size	605	Refunds made	$	675,004
Sample Size	60	Refunds made	$	70,203

The sample was not a statistically valid sample, but was determined using Chapter 11, Audit Sampling Considerations of Uniform Guidance Compliance Audits, of the 2017 AICPA Audit and Accounting Guide, *Government Auditing Standards and Single Audits*.

Cause

The University's procedures for the return of Title IV funds were not followed. In addition, there was no independent review of the refund calculations.

Effect

The University was in possession of funds belonging to the federal government longer than allowed and errors on the R2T4 could lead to incorrect refunds being processed.

Recommendation

The University should implement a formal and rigorous review process over refund calculations and increase emphasis on timely processing of refund transactions.

Management's Response

In FY17 during the fall semester (August-December 2016), the University brought in financial aid consultants to provide additional training and to revise/update procedures related to the R2T4 process. During this time, there was a process where the consultants would be checking the work of staff members being trained. In January 2017, a new Financial Aid Director began, and an additional staff member began the R2T4 training process. Throughout the spring semester 2017, while a documented internal control process was not in place, there were steps taken to begin implementation of formal reviews and sign-offs on the refund calculations. This internal control consisted of email confirmation between specific University Financial Aid personnel who provided a second check of R2T4 calculations during the training process for the second staff member. Once the second individual was fully trained, we were able to close any gaps we had with our internal control with formalized documentation for a second check on all R2T4's completed.

Since December 2017, automated reports have been run on a daily basis and have been implemented. Both late returns (as indicated by the auditor) occurred prior to the December 2017 timeframe.

An additional staff person was hired in November 2017 to create a centralized process for all non-attendance and withdrawals for the university. The funds that were disbursed after the withdrawal were due to a late withdrawal being processed; prior to the November timeframe.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2017-003: Student Status Changes

Federal Program - Federal Direct Student Loans
Federal Agency - U.S. Department of Education
Pass-Through Entity - Not Applicable
CFDA Number - 84.268
Federal Award Number - P268K171449
Federal Award Year - June 30, 2017

Criteria

Title IV regulations (34 CFR 685.309(b)) require that upon receipt of an enrollment report from the Secretary, institutions must update all information included in the report and return the report to the Secretary: (i) in the manner and format prescribed by the Secretary; and (ii) within the timeframe prescribed by the Secretary. Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, an institution must notify the Secretary within 30 days after the date the institution discovers that: (i) a loan under Title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the institution, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or (ii) a student who is enrolled at the institution and who received a loan under Title IV of the Act has changed his or her permanent address.

Condition

The change in student status for one of twenty-five students tested was not reported to the National Student Loan Data System (NSLDS) within 30 days or included in a response to a roster file within 60 days.

The sample was not a statistically valid sample, but was determined using Chapter 11, Audit Sampling Considerations of Uniform Guidance Compliance Audits, of the 2016 AICPA Audit and Accounting Guide, *Government Auditing Standards and Single Audits*.

Questioned Costs

Not applicable.

Context

Not applicable.

Cause

The University failed to follow its procedures for reporting student status changes.

Effect

The accuracy of Title IV student loan records depends heavily on the accuracy of the enrollment information reported by schools. If an institution does not review, update, and verify student enrollment statuses, effective dates of the enrollment status, and the anticipated completion dates, then the Title IV student loan records will be inaccurate.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2017-003: Student Status Changes (continued)

Recommendation

The University should revise its procedures to ensure that all enrollment status changes are updated accurately and timely with NSLDS.

Management's Response

Based on updated NSLDS guidance as of November 2017, specific to withdrawals that occur during the summer semester, the way the student was handled in July of 2017 would now been deemed as appropriate. Therefore, no corrective action is required based on the change in guidance by NSLDS.

UPPER IOWA UNIVERSITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2017

The previous audit of Federal Award Programs was for the year ended June 30, 2016. The findings noted during that audit and the University's corrective actions taken are as follows:

Finding 2016-001: Significant Deficiency - Internal Controls over Financial Reporting

Management continued to require the auditors' assistance with the preparation of the draft consolidated financial statements, specifically as it relates to determination of net asset classification, releases and transfers. However, management took ownership of, reviewed, approved, and accepted responsibility for those financial statements prior to their issuance.

Action Taken

The University has made improvements in internal controls over financial reporting during 2017 and will continue to strengthen controls in fiscal year 2018. The accounting team has identified the root cause of the issue with the net asset classifications and will work to resolve this before the end of the current fiscal year. Resolving this issue will help with the releases between asset classifications and enable the funds to be balanced. Management has created a spreadsheet to track releases throughout the fiscal year. However, a similar finding was identified during the 2017 audit as described in Finding 2017-001.

Finding 2016-002: Significant Deficiency - Internal Controls over Eligibility and Overawards of Title IV Funds

In the University's computer system, certain institutional awards were not set up correctly as estimated financial assistance in the federal award calculations. This could cause students to receive Title IV funds in excess of the allowed amounts.

For one student tested, the University incorrectly calculated the student's total Financial Aid package which resulted in Subsidized Direct loans to be awarded rather than non-need based Unsubsidized Direct loans. Subsequent to the initial overaward, this was corrected by replacing the student's Subsidized Direct loan with a non-need based TEACH Grant.

Action Taken

The University has revised procedures and implemented automated Financial Aid Awarding through PowerFaids to prevent over awarding. No similar finding was noted during current year testing.

Finding 2016-003: Significant Deficiency - Withdrawals and Return of Title IV funds

During the year, there was not an adequate system of controls in place that provided for timely processing of refunds. In addition, there was no consistent independent review of the refund calculations.

The federal aid refund for two students tested was not properly calculated and federal aid for four students was not returned within 45 days from the date of withdrawal. Furthermore, one student tested was inadvertently disbursed funds after withdrawal. These funds were returned 15 days after the disbursement occurred.

Finding 2016-003: Significant Deficiency - Withdrawals and Return of Title IV funds (continued)

Action Taken

In FY17 during the fall semester (August-December 2016), the University brought in financial aid consultants to provide additional training and to revise/update procedures related to the R2T4 process. During this time, there was a process where the consultants would be checking the work of staff members being trained. In January 2017, a new Financial Aid Director began, and an additional staff member began the R2T4 training process. Throughout the spring semester 2017, while a documented internal control process was not in place, there were steps taken to begin implementation of formal reviews and sign-offs on the refund calculations. This internal control consisted of email confirmation between specific University Financial Aid personnel who provided a second check of R2T4 calculations during the training process for the second staff member. Once the second individual was fully trained, we were able to close any gaps we had with our internal control with formalized documentation for a second check on all R2T4's completed.

Since December 2017, automated reports have been run on a daily basis and have been implemented. Both late returns (as indicated by the auditor) occurred prior to the December 2017 timeframe.

An additional staff person was hired in November 2017 to create a centralized process for all non-attendance and withdrawals for the university. The funds that were disbursed after the withdrawal were due to a late withdrawal being processed; prior to the November timeframe. However, a similar finding was identified during the 2017 audit as described in Finding 2017-002