Drake University

Financial Statements as of and for the Years Ended June 30, 2017 and 2016, and Independent Auditors' Report, Supplemental Schedule of Revenues and Expenses—Intercollegiate Athletic Department for the Year Ended June 30, 2017, Supplementary Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2017, and Related Independent Auditors' Reports

DRAKE UNIVERSITY

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
699 Walnut Street
Suite 1800
Des Moines, Iowa 50309-9964
USA

Tel: 515-288-1200
Fax: 515-288-1200
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Drake University
Des Moines, Iowa

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Schedule of Revenues and Expenses—Intercollegiate Athletic Department for the year ended June 30, 2017, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2017, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 6, 2017, on our consideration of Drake University'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Drake 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 Drake University's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 6, 2017

DRAKE UNIVERSITY

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CASH AND CASH EQUIVALENTS	$ 26,875,281	$ 37,266,585
ACCOUNTS RECEIVABLE—Students and other—Net of allowance of $250,000	4,522,316	2,708,588
U.S. GOVERNMENT RECEIVABLES	891,786	1,282,623
PREPAID EXPENSES AND INVENTORIES	2,185,648	1,995,590
CONTRIBUTIONS RECEIVABLE—Net	12,815,921	13,787,877
OTHER ASSETS	125,969	227,241
U.S. GOVERNMENT LOANS RECEIVABLE—Net of allowance of $290,000	15,522,174	15,039,340
INVESTMENTS:		
Money market accounts and certificates of deposit	12,788,651	24,226,088
Bonds and fixed income mutual funds	9,370,873	8,731,963
Commingled equity fund	3,394,713	4,625,335
Commingled bond fund	14,873,463	13,412,310
Common stocks and equity mutual funds	108,793,162	97,629,016
Cash surrender value of life insurance policies	4,243,044	4,266,173
Limited partnerships and similar nonmarketable equity interests	45,235,868	41,053,384
Real estate	9,068,714	9,068,714
Total investments	207,768,488	203,012,983
LAND, BUILDINGS, AND EQUIPMENT:		
Land	25,169,421	24,757,179
Buildings	206,149,381	202,329,523
Equipment	67,897,566	64,820,667
Construction in progress	40,467,037	11,976,739
	339,683,405	303,884,108
Less accumulated depreciation	(136,064,858)	(128,092,698)
Land, buildings, and equipment—net	203,618,547	175,791,410
FUNDS HELD IN TRUST BY OTHERS	10,717,388	10,265,209
TOTAL ASSETS	$ 485,043,518	$ 461,377,446

(Continued)

DRAKE UNIVERSITY

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

	2017	2016
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 12,552,420	$ 10,452,136
Student deposits and deferred income	6,285,442	5,171,808
Other liabilities	7,369,726	9,531,216
Annuities payable	1,391,656	1,438,382
Bonds payable	58,026,186	61,664,236
Accrued postretirement benefit obligation	16,682,270	17,980,933
U. S. government grants refundable	13,060,639	13,071,299
Total liabilities	115,368,339	119,310,010
NET ASSETS:		
Unrestricted	188,166,206	167,758,995
Temporarily restricted	42,271,789	42,853,180
Permanently restricted	139,237,184	131,455,261
Total net assets	369,675,179	342,067,436
TOTAL LIABILITIES AND NET ASSETS	$ 485,043,518	$ 461,377,446

See notes to financial statements.

(Concluded)

DRAKE UNIVERSITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Revenue, gains and other support:				
Student tuition and fees	$ 147,266,119	$ -	$ -	$ 147,266,119
Less scholarships and fellowships	(60,517,336)			(60,517,336)
Net student tuition and fees	86,748,783			86,748,783
Government grants and contracts	10,610,809			10,610,809
Private grants and contracts	49,533	326,760		376,293
Private gifts	3,128,570	3,925,487		7,054,057
Endowment income used in operations	9,434,640			9,434,640
Sales and services of auxiliary enterprises	17,960,264			17,960,264
Other income	8,323,765			8,323,765
Net assets released from restriction	4,914,998	(4,914,998)		-
Total operating revenues	141,171,362	(662,751)	-	140,508,611
OPERATING EXPENSES:				
Instruction	49,136,397			49,136,397
Research	1,074,179			1,074,179
Public service	10,568,090			10,568,090
Academic support	22,014,516			22,014,516
Student services	27,132,628			27,132,628
Institutional support	19,166,244			19,166,244
Auxiliary enterprises	13,869,461			13,869,461
Total operating expenses	142,961,515	-	-	142,961,515
Change in net assets from operations	(1,790,153)	(662,751)	-	(2,452,904)
NONOPERATING ACTIVITIES:				
Contributions for nonoperating purposes	162,144	7,452,058	7,262,172	14,876,374
Net unrealized gains from investments	7,711,385	5,134,012	671,833	13,517,230
Reinvested net losses from investments	(1,453,684)	(1,070,677)		(2,524,361)
Change in value of split interest agreements	2,267	22,765	(156,714)	(131,682)
Loss on disposal of property and equipment	(205,752)			(205,752)
Change in fair value of interest rate swap agreements	2,250,617			2,250,617
Other nonoperating activities		(42,365)	4,633	(37,733)
Net assets released from restriction	11,414,433	(11,414,433)		-
Postretirement benefit plan related changes, other than net periodic postretirement benefit cost	2,315,954			2,315,954
Change in net assets from nonoperating activities	22,197,364	81,360	7,781,923	30,060,647
CHANGE IN NET ASSETS	20,407,211	(581,391)	7,781,923	27,607,743
NET ASSETS—Beginning of year	167,758,995	42,853,180	131,455,261	342,067,436
NET ASSETS—End of year	$ 188,166,206	$ 42,271,789	$ 139,237,184	$ 369,675,179

See notes to financial statements.

DRAKE UNIVERSITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Revenue, gains and other support:				
Student tuition and fees	$ 143,899,585	$ -	$ -	$ 143,899,585
Less scholarships and fellowships	(57,128,193)			(57,128,193)
Net student tuition and fees	86,771,392	-	-	86,771,392
Government grants and contracts	10,453,758			10,453,758
Private grants and contracts	176,990	362,844		539,834
Private gifts	3,330,753	4,660,814		7,991,567
Endowment income used in operations	8,982,740			8,982,740
Sales and services of auxiliary enterprises	18,699,384			18,699,384
Other income	7,801,362			7,801,362
Net assets released from restriction	4,652,754	(4,652,754)		-
Total operating revenues	140,869,133	370,904	-	141,240,037
OPERATING EXPENSES:				
Instruction	48,098,198			48,098,198
Research	1,304,209			1,304,209
Public service	10,363,142			10,363,142
Academic support	20,763,177			20,763,177
Student services	26,846,115			26,846,115
Institutional support	18,710,852			18,710,852
Auxiliary enterprises	14,635,162			14,635,162
Total operating expenses	140,720,855	-	-	140,720,855
Change in net assets from operations	148,278	370,904	-	519,182
NONOPERATING ACTIVITIES:				
Contributions for nonoperating purposes	992,811	4,573,262	8,740,598	14,306,671
Net unrealized losses from investments	(4,038,793)	(3,550,681)	(488,880)	(8,078,354)
Reinvested net losses from investments	(2,502,265)	(2,179,645)		(4,681,910)
Change in value of split interest agreements	12,298	(150,160)	(141,996)	(279,858)
Loss on disposal of property and equipment	(206,639)			(206,639)
Change in fair value of interest rate swap agreements	(1,303,592)			(1,303,592)
Other nonoperating activities		(720,000)	(45,789)	(765,789)
Net assets released from restriction	3,762,286	(3,762,286)		-
Postretirement benefit plan related changes, other than net periodic postretirement benefit cost	(738,404)			(738,404)
Change in net assets from nonoperating activities	(4,022,298)	(5,789,510)	8,063,933	(1,747,875)
CHANGE IN NET ASSETS	(3,874,020)	(5,418,606)	8,063,933	(1,228,693)
NET ASSETS—Beginning of year	171,633,015	48,271,786	123,391,328	343,296,129
NET ASSETS—End of year	$ 167,758,995	$ 42,853,180	$ 131,455,261	$ 342,067,436

See notes to financial statements.

DRAKE UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 27,607,743	$ (1,228,693)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,685,711	9,012,544
Net unrealized (gains) losses from investments	(13,517,230)	8,078,354
Change in fair value of interest rate swap agreements	(2,250,617)	1,303,592
Net realized gains from investments	(3,502,437)	(705,001)
Loss on disposal of property and equipment	205,752	206,639
Change in fair value of split interest agreements	131,682	279,858
Postretirement benefit plan related changes, other than net periodic postretirement benefit cost	(2,315,954)	738,404
Contributions restricted for long-term investment	(7,262,172)	(8,740,598)
Noncash contributions of investments	(4,698,895)	(2,814,489)
Change in:		
Student accounts, other, and U.S. government receivables	(1,422,891)	50,250
Prepaid expenses and inventories	(190,058)	(242,403)
Contributions receivable	971,956	2,800,331
Other assets	101,271	(77,335)
Accounts payable and accrued expenses	270,121	(59,555)
Student deposits and deferred income	1,113,635	(506,778)
Other liabilities	39,895	41,557
Accrued postretirement benefit obligation	1,017,291	839,253
Net cash provided by operating activities	4,984,803	8,975,930
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(31,322,282)	(57,901,049)
Proceeds from sales and maturities of investments	47,833,160	42,269,777
Purchases of property and equipment	(34,779,254)	(13,321,241)
Issuance of U.S. government loans receivable	(2,861,074)	(3,981,893)
Payments from U.S. government loans receivable	2,378,240	2,342,920
Net cash used in investing activities	(18,751,210)	(30,591,486)

(Continued)

DRAKE UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of bonds payable	$ 29,811,500	$ 32,480,000
Refunding of bonds payable	(29,525,000)	-
Payments on bonds payable	(3,860,000)	(14,240,000)
Payments to annuitants	(178,409)	(204,200)
Payments of debt issuance costs	(124,500)	-
Contributions restricted for long-term investment	7,262,172	8,740,598
Change in U.S. government grants refundable	(10,660)	121,241
Net cash provided by financing activities	3,375,103	26,897,639
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,391,304)	5,282,083
CASH AND CASH EQUIVALENTS:		
Beginning of year	37,266,585	31,984,502
End of year	$ 26,875,281	$ 37,266,585
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,223,524	$ 1,728,631
Amounts included in period-end accounts payable for purchases of property and equipment	$ 4,994,442	$ 3,164,279

See notes to financial statements. (Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations—Drake University (the "University") is a private, Masters-Large university in Des Moines, Iowa. The University is accredited as a member of the North Central Association of Colleges and Schools.

The University's mission is to provide an exceptional learning environment that prepares students for meaningful personal lives, professional accomplishments, and responsible global citizenship. The Drake University experience is distinguished by collaborative learning among students, faculty, and staff and by the integration of the liberal arts and sciences with professional preparation.

Drake University has been on the approved list of the North Central Association of Colleges and Schools since that association was established in 1913. Since reorganization of the Association in 2000, Drake University is accredited by the Higher Learning Commission (the "Commission") and a member of the North Central Association of Colleges and Schools. In 2008, the University's accredited status was continued by the Commission. Having fully met the accreditation standards of the Commission, the University is scheduled to have its next comprehensive team visit in 2017–2018.

Basis of Presentation—The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted—Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted—Net assets subject to donor-imposed restrictions that may or will be met either by actions of the University and/or the passage of time.

Permanently Restricted—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.

The University follows guidance within FASB Accounting Standards Codification (ASC) 205-958, which codified FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP No. 117-1"). This ASC provides guidance on the net asset classification of donor-restricted endowment funds for nonprofit entities subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Subsequently, Iowa enacted a version of the Iowa Uniform Prudent Management of Institutional Funds Act (IUPMIFA).

IUPMIFA establishes regulations in regards to the expenditure and financial statement disclosure of donor-restricted endowment funds. The Board has interpreted IUPMIFA as requiring the preservation of the historic value of the original gift absent explicit donor stipulation stating otherwise. Therefore, the University classifies the following as permanently restricted net assets in relation to donor restricted endowment funds: (a) the value of the original gifts to the endowment at the time of the gift, (b) the value of all new gifts to the endowment as of the date of the gift, and (c) reinvestments to the endowment specifically stated in the donor gift instrument at the time added to the fund.

In accordance with IUPMIFA, the University considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The purpose of the University and of the donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effects of inflation and deflation
- The investment policies of the University
- The expected total return from income and the appreciation of investments
- Other University resources

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at fair value. Contributions received with donor-imposed restrictions that are met within the same year as received are reported as revenues of the temporarily restricted net asset class. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions to be received after one year are discounted at a risk-free rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management’s judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net unrealized and realized gains (losses) on investments and income from investments are reported as follows:

- As increases (decreases) in permanently restricted net assets if the terms of the gift require that it be added to the principal of a permanent endowment fund.

- As increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.

- As increases (decreases) in unrestricted net assets in all other cases.

- Capital gains and dividends are recorded net with other realized gains and losses on the statement of activities in reinvested net gains (losses).

Operating and Nonoperating Activities—The statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all the activity of the University except for certain items specifically considered to be of a nonoperating nature. Contributions included in nonoperating activities consist of bequests and other unrestricted gifts not solicited as part of the annual fundraising campaigns, gifts restricted for the acquisition of capital assets, and gifts restricted to endowment funds. Nonoperating activities also include realized and unrealized gains/losses on investments, endowment income not used in operations, change in net present value of split interest agreements, gains/losses on disposal of property and equipment, change in fair value of interest rate swap agreements, the change in the funded status of the postretirement benefit obligation and significant items of an unusual or nonrecurring nature.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents—Cash and cash equivalents include interest-bearing money market accounts, repurchase agreements, and short-term investments with a maturity of three months or less at the date of purchase that are available for current operating purposes. The total cash balances are insured by the Federal Deposit Insurance Corporation (F.D.I.C.) up to $250,000 per bank. The University had cash balances on deposit with banks that exceeded the balance insured by the F.D.I.C. in the amount of approximately $26.1 million and $36.8 million at June 30, 2017 and 2016, respectively.

Income Taxes—The University has received a tax determination letter from the Internal Revenue Service (IRS) indicating it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") as a charitable educational institution. As such, the University is taxed only on any net unrelated business income under Section 511 of the Code.

GAAP requires management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Investments—Investments are recorded at fair value, with gains and losses included in the statements of activities. Direct investments in real estate are stated at historical cost.

The University had investment balances that represented 10% or more of its total investments as of June 30, 2017 and 2016, are as follows:

	2017		2016	
Vanguard Institutional Index Fund	$ 31,763,601	15 %	$ 31,330,720	16 %

Split Interest Agreements—The University has a number of split interest agreements with individuals that generally require annuity payments to these individuals in exchange for property, securities, or cash. The assets in the split interest agreements are stated at fair value in the University's financial statements. These assets total approximately $3,358,000 and $3,240,000 at June 30, 2017 and 2016, respectively, and are included in "Investments" in the statements of financial position. The University's liability to the annuitants is recorded based on the present value of the expected payments using discount rates between 6.6% and 10.9% as of June 30, 2017 and 6.9% and 10.9% as of June 30, 2016. Annuities payable total approximately $1,392,000 and $1,438,000 at June 30, 2017 and 2016, respectively.

Insurance Policies—Insurance policies donated to the University are recorded at the cash surrender value of the policy and adjusted annually for changes in such values. Certain insurance policies require premium payments over several years.

Land, Buildings, and Equipment—Land, buildings, and equipment are stated at cost or, if received by gift, at the market or appraised value at the date of gift. Depreciation is provided on the straight-line basis over estimated useful lives ranging from 5 to 50 years.

Expenditures for new equipment, buildings, and improvements which substantially extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. The University capitalizes interest on major projects during construction and amortizes the amounts over the related assets' estimated useful lives. No capitalized interest was recognized during the years ended June 30, 2017 and 2016. Costs incurred for building materials and equipment comprises construction in progress.

Works of Art—The University maintains several collections, which are not reported for financial statement purposes. These collections include works of art, natural history (artifacts) and other similar objects. Collections are held for public exhibition, education and research in furtherance of the University's goal to provide public service. Various University departments have the responsibility to control, preserve and protect these collections.

Funds Held in Trust by Others—The University is the beneficiary of funds held in perpetual trust. The University does not control or have possession of these funds, but receives income from the trust. Funds held in trust by others are recorded at the estimated fair value of future cash flows, which is estimated to equal the fair value of the trust assets.

U.S. Government Grants Refundable—Funds provided by the U.S. government under the Federal Perkins Loan and Health Professions Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the U.S. government and are included as a liability in the statements of financial position.

Fair Value of Financial Instruments—Financial instruments are generally described as cash, contractual obligations or rights to pay or receive cash. The carrying amount approximates fair value for certain financial instruments because of the short-term maturity of these instruments, which include cash and cash equivalents, accounts receivable, U.S. government receivables, accounts payable, and student deposits.

Fair value estimates are made at a specific point in time based on relevant market information. Fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If available, quoted market prices are used to value investments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Investments are recorded at fair value primarily as determined by values provided by external investment managers or quoted market prices. See Note 11 for further information on investment fair value measurements.

U.S. government loans receivable and U.S. government grants refundable are not saleable and can only be assigned to the U.S. Government or its designees. The carrying value approximates fair value because the notes bear interest at rates which approximate current rates the University could obtain on notes with similar maturities and credit qualities.

The estimated fair value of bonds payable was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the University for debt of similar original maturity. The carrying value of the University's bonds payable, excluding issuance costs, was $58,431,500 and $62,005,000 at June 30, 2017 and 2016, respectively; the fair value was approximately $58,576,000 and $65,411,000 at June 30, 2017 and 2016, respectively.

Derivative Financial Instruments—From time to time, the University enters into interest rate swap agreements to modify the interest rate characteristics of its outstanding debt from floating to fixed. The University accounts for derivative instruments, including derivative instruments embedded in other contracts in accordance with ASC Topic 815, *Derivatives and Hedging*. ASC 815 requires that derivative instruments be measured at fair value and reported as assets or liabilities in the statements of financial position. Changes in the fair value of derivatives during the year are reported in the statements of activities. The University's interest rate swap agreements are considered derivative financial instruments and have been reported as other liabilities in the statements of financial position at fair value. The net change in the fair value of the agreements during the year is reported as an unrealized gain/loss in the nonoperating activities section of the statements of activities. The net cash received or paid under the terms of the interest rate swap agreements over their term are reported as a component of interest expense.

Revenue Recognition—Net tuition and fees and auxiliary income are recognized as income in the period the services are rendered.

Tuition Discounting—The University maintains a policy of offering qualified applicants admission to the University without regard to financial circumstances. The University provides institutional financial aid to those admitted on the basis of merit or need in the form of direct scholarships, grants, or employment during the academic year. Tuition and fees have been discounted by institutional aid in the amount of approximately $60,517,000 and $57,128,000 for the years ended June 30, 2017 and 2016, respectively.

Fund-Raising Expenses—Fund-raising expenses for the University consist of development expenses, capital campaign costs, and alumni relations. Total fund-raising expenses were approximately $3,695,000 and $3,606,000 for the years ended June 30, 2017 and 2016, respectively.

Auxiliary Enterprises—The University's auxiliary enterprises exist primarily to furnish goods and services to students. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, and parking. Auxiliary enterprise revenues and expenses are reported as changes in unrestricted net assets.

Accrued Postretirement Benefit Obligation—The University follows ASC 715, *Compensation—Retirement Benefits*. ASC 715 requires an employer to recognize in its statements of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a postretirement plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. In addition, ASC 715 requires that the measurement date of the plan obligation coincide with an employer's fiscal year-end. The University presents the change in the funded status of its postretirement benefit obligation within non-operating activities in the statements of activities, while the net periodic postretirement benefit cost is presented within operating activities in the statements of activities.

New Accounting Pronouncements—In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, which amends FASB Accounting Standards Codification (ASC) 835, *Interest*. The amendments in this guidance require that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability. This guidance is effective for reporting periods beginning after December 15, 2015. The University elected to adopt ASU No. 2015-03 during the year ending June 30, 2017, as required, and has applied this standard retrospectively, as required. The impact to the statements of financial position as of June 30, 2016 was to reclassify $340,764 from other assets to a reduction of bonds payable. There were no impacts to the statements of activities or the statements of cash flows.

New Accounting Pronouncements (Not Yet Effective)—In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 requires an entity to evaluate revenue recognition by identifying a contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The University has not yet selected a transition method and is currently in the process of assessing the impact the standard will have upon adoption on its ongoing financial reporting.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance is intended to improve the recognition and measurement of financial instruments. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. The University is currently assessing the potential impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2019. The University is currently assessing the potential impact of this ASU on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which significantly changes the presentation requirements for financial statements of not-for-profit entities (NFPs). The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. Specifically, the ASU addresses (1) the complexity and understandability of net asset classifications, (2) the lack of consistency in the type of information provided about expenses, and (3) inconsistencies in the reporting of (a) operating information in the statement of activities and (b) operating cash flows in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017. The University is currently assessing the potential impact of this ASU on its financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance is intended to improve the consistency, transparency, and usefulness of financial information for users by requiring that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. The University is currently assessing the potential impact of this ASU on its financial statements.

2. RECEIVABLES

Financing Receivables Student Loans—The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs and other institutional and private loans. At June 30, 2017 and 2016, student loans represented 3.2% and 3.3%, respectively, of total assets.

Student loans at June 30, 2017 and 2016, are summarized as follows:

	2017	2016
Federal government programs	$ 15,812,174	$ 15,329,340
Institutional and private loans	116,223	137,714
	15,928,397	15,467,054
Less allowance for doubtful accounts:		
Beginning of year - federal government programs	(290,000)	(290,000)
Beginning of year - institutional and private loans	(4,000)	(4,000)
Increases		
Write-offs		
End of year	(294,000)	(294,000)
Student loans receivable—net	$ 15,634,397	$ 15,173,054

Institutional and private loans, net of the allowance for doubtful accounts are included within Accounts Receivable—Student and Other, Net, on the Statements of Financial Position.

The University participates in the Perkins and Health Professions Student Loan (HPSL) Federal revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the U.S. Government under the Perkins and HPSL programs of $13,060,639 and $13,071,299 as of June 30, 2017 and 2016, respectively, are ultimately refundable to the U.S. Government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under these programs result in a reduction of the funds available for loan and a decrease in the liability to the U.S. Government.

The following amounts were past due under student loan programs at June 30, 2017:

Past Due	2017
1–60 days	$ 169,283
60–90 days	279,744
90+ days	939,463
Total past due	$ 1,388,490

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.

Contributions Receivable—Net contributions receivable at June 30, 2017 and 2016, are summarized as follows:

	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	$ 5,326,105	$ 7,023,910
One year to five years	8,496,410	7,887,352
Over five years	512,500	310,000
	14,335,015	15,221,262
Less:		
Unamortized discount on contributions receivable	(262,094)	(168,385)
Allowance for uncollectible contributions	(1,257,000)	(1,265,000)
Contributions receivable—net	$ 12,815,921	$ 13,787,877

Contributions receivable are distributed between net asset classifications at June 30, 2017 and 2016, are as follows:

	2017	2016
Temporarily restricted for:		
Capital projects	$ 7,561,633	$ 8,317,533
Other	3,009,356	3,170,977
	10,570,989	11,488,510
Permanently restricted for endowment	2,244,931	2,299,367
Contributions receivable—net	$ 12,815,921	$ 13,787,877

3. INVESTMENT GAIN/LOSS

For the years ended June 30, 2017 and 2016, investment gain (loss) consisted of the following:

	2017	2016
Interest, rents, and dividends	$ 3,595,058	$ 3,839,681
Net realized gains from investments	3,502,437	705,001
Investment expenses	(187,216)	(243,852)
Investment income—net	6,910,279	4,300,830
Net unrealized gains (losses) from investments	13,517,230	(8,078,354)
Net investment gain (loss)	$ 20,427,509	$ (3,777,524)

For the years ended June 30, 2017 and 2016, as reflected in the statements of activities, net investment gain (loss) was presented as follows:

	2017	2016
Operating revenues—endowment income used in operations	$ 9,434,640	$ 8,982,740
Nonoperating activities:		
Net unrealized gains (losses) from investments	13,517,230	(8,078,354)
Reinvested net losses from investments	(2,524,361)	(4,681,910)
Net investment gain (loss)	$ 20,427,509	$ (3,777,524)

4. BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016, are as follows:

	2017	2016
Series 2008—Private College Revenue Refunding Bonds. Variable rate demand bonds maturing April 1, 2031. The bonds may operate in a daily, weekly, adjustable, or auction-rate mode. As of June 30, 2016, the bond interest rate was 0.39%.	$ -	$ 29,525,000
Series 2016—Private College Facility Revenue and Refunding Bonds maturing April 1, 2038. The bonds bear interest at fixed rates ranging from 3.0% to 4.0%.	30,825,000	32,480,000
Series 2017A – Private College Facility Revenue Bonds. Variable rate bonds maturing June 1, 2027. Interest rate based on the sum of 70% of the one-month USD-LIBOR-BBA rate plus 0.65%, reset monthly.	116,500	
Series 2017B – Private University Revenue and Refunding Bonds. Variable rate bonds maturing June 1, 2031. Interest rate based on the sum of 70% of the one-month USD-LIBOR-BBA rate plus 0.805%, reset monthly.	27,490,000	
Bonds payable, par value	58,431,500	62,005,000
Less debt issuance costs, net	(405,314)	(340,764)
Bonds payable	$ 58,026,186	$ 61,664,236

The University's bonds are general obligations of the University as defined in the Indenture Agreements. As of June 30, 2017 and 2016, the University was in compliance with financial covenants set forth in the Bond and Indenture Agreements.

Contractual maturities on bonds payable of the University subsequent to June 30, 2017, are as follows:

Years Ending June 30	
2018	$ 4,096,500
2019	4,135,000
2020	4,300,000
2021	4,460,000
2022	4,635,000
Thereafter	36,805,000
	$ 58,431,500

The above schedule has been prepared based on the contractual maturities of the debt outstanding as of June 30, 2017.

Interest Rate Swap Agreements—In order to minimize the impact of interest rate changes, the University has entered into three interest rate swap agreements. Under the terms of the interest rate swaps, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The terms of the swap transactions are aligned with the underlying bond maturities. The interest rate swap agreements have an outstanding notional of $26,890,000 and $29,095,000 as of June 30, 2017 and 2016, respectively.

The following tables provide approximate fair value details regarding the University's derivative financial instruments as of and for the years ended June 30, 2017 and 2016:

	As of June 30, 2017			
	Asset Derivatives		**Liability Derivatives**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate swaps		$ -	Other liabilities	$ (5,400,993)
Total derivatives		$ -		$ (5,400,993)

	For the Year Ended June 30, 2017	
	Location of Gain (Loss) Recognized in Income	**Amount of Gain (Loss) Recognized in Income on Derivatives**
Interest rate swaps	Change in fair value of interest rate swap agreements	$ 2,250,617
Total		$ 2,250,617

	As of June 30, 2016			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps		$ -	Other liabilities	$(7,651,610)
Total derivatives		$ -		$(7,651,610)

	For the Year Ended June 30, 2016	
	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income on Derivatives
Interest rate swaps	Change in fair value of interest rate swap agreements	$(1,303,592)
Total		$(1,303,592)

The liability under interest rate swap agreements, which is included in “Other Liabilities” in the statements of financial position at June 30, 2017 and 2016, is approximately as follows:

	2017	2016
Series 2001 (refunded into Series 2017B) notional amount as of June 30, 2017 and 2016, of $12,000,000 at 4.49%	$ (4,364,433)	$ (5,852,852)
Series 2003 (refunded into Series 2017B) notional amounts as of June 30, 2017 and 2016, of $6,530,000 and $7,185,000, respectively, at 3.29%	(543,664)	(911,480)
Series 2005 (refunded into Series 2017B) notional amounts as of June 30, 2017 and 2016, of $8,360,000 and $9,910,000, respectively, at 3.48%	(492,896)	(887,278)
	$ (5,400,993)	$ (7,651,610)

The University incurred interest expense related to its interest rate swap agreements of approximately $946,000 and $1,093,000 for the years ended June 30, 2017 and 2016, respectively.

5. CONSTRUCTION IN PROGRESS

Projects in process at June 30, 2017 and 2016, are as follows:

	2017	2016
Architect and planning fees for multiple projects	$ 344,741	$ 36,087
STEM@Drake—Science Connector Building and Collier-Scripps Hall	38,711,196	8,997,306
Athletic facilities	1,262,845	2,198,508
Technology projects		692,076
Other	148,255	52,762
	$ 40,467,037	$ 11,976,739

6. ENDOWMENT

The University's endowment consists of donor gifts (permanently restricted) plus other Board designated funds (unrestricted) and funds held in trust by others which are deemed to be held and invested in perpetuity. The Board of Trustees approves a spending policy annually for the endowment.

The University follows the IUPMIFA. IUPMIFA prescribes guidelines for expenditure of donor-restricted endowment funds. Per IUPMIFA, an institution may appropriate for expenditure as the institution determines is prudent for uses, benefits, purposes and duration for which the endowment is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. Appropriation for expenditure is deemed to occur upon approval for expenditure unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. IUPMIFA does not apply to board designated endowment funds and therefore the appreciation on these funds remains a part of unrestricted net assets.

The endowment investment activity consisted of the following for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance—July 1, 2016	$48,994,489	$ 14,563,556	$ 128,615,238	$ 192,173,283
Total gifts	23,911	-	7,316,608	7,340,519
Total other changes	326,761	-	114,439	441,200
Return on investment:				
Interest, dividends, and net real estate activity	2,382,920	1,127,633		3,510,553
Management and custodial fees	(106,643)	(55,684)		(162,327)
Net realized gains from investments	2,135,517	1,297,636		3,433,153
Net unrealized gain (losses) from investments	7,708,797	5,130,103	452,179	13,291,079
Total	12,120,591	7,499,688	452,179	20,072,458
Endowment income used in operations	(5,991,650)	(3,442,990)		(9,434,640)
Endowment return net of amounts used in operations	6,128,941	4,056,698	452,179	10,637,818
Ending balance—June 30, 2017	$55,474,102	$ 18,620,254	$ 136,498,464	$ 210,592,820

The endowment investment activity consisted of the following for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance—July 1, 2015	$ 55,789,436	$ 20,221,769	$ 120,479,089	$ 196,490,294
Total gifts	82,114	-	8,381,290	8,463,404
Total other changes	(193,506)	-	76,759	(116,747)
Return on investment:				
Interest, dividends, and net real estate activity	2,315,451	1,460,245		3,775,696
Management and custodial fees	(110,231)	(76,255)		(186,486)
Net realized gains from investments	298,974	334,472		633,446
Net unrealized gain (losses) from investments	(4,035,823)	(3,545,861)	(321,900)	(7,903,584)
Total	(1,531,629)	(1,827,399)	(321,900)	(3,680,928)
Endowment income used in operations	(5,151,926)	(3,830,814)		(8,982,740)
Endowment return net of amounts used in operations	(6,683,555)	(5,658,213)	(321,900)	(12,663,668)
Ending balance—June 30, 2016	$ 48,994,489	$ 14,563,556	$ 128,615,238	$ 192,173,283

All endowment net assets classified as unrestricted are board-designated funds; while all temporarily and permanently restricted net assets are classified accordingly based on donor-imposed restrictions.

Endowment net assets were classified as follows as of June 30, 2017 and 2016:

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (3,842,457)	$18,620,254	$125,781,076	$140,558,873
Funds held in trust			10,717,388	10,717,388
Board-designated	59,316,559			59,316,559
Total funds	$55,474,102	$18,620,254	$136,498,464	$210,592,820

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (6,982,867)	$14,563,556	$118,350,029	$125,930,718
Funds held in trust			10,265,209	10,265,209
Board-designated	55,977,356			55,977,356
Total funds	$48,994,489	$14,563,556	$128,615,238	$192,173,283

Funds with Deficiencies—Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or IUPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $3,842,457 and $6,982,867 for the years ended June 30, 2017 and 2016, respectively. As allowed under IUPMIFA, the University may apply its standard spending policy to these funds.

Return Objectives and Risk Parameters and Strategies Employed for Achieving Objectives—The University intends that its endowment will be invested to enhance the real purchasing power of the principal of the fund and to provide reasonably stable and predictable cash flows from the endowment for its operating purposes.

The primary investment objective of the endowment fund is to achieve at least an annualized total return, after investment management fees, of 5% in excess of inflation (as defined by the Consumer Price Index) based on the endowment's long term goal of distributing between 4% and 5% of a twelve-quarter average of the endowment's fair values as established each year by the Board of Trustees.

Spending Policy and How the Investment Objectives Relate to Spending Policy—The Board of Trustees reaffirmed the current endowment spending policy. For the years ended June 30, 2017 and 2016, the endowment distribution under this policy was calculated as 5% of a twelve-quarter average of the fair value of endowment net assets.

7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2017	2016
Unexpended for restricted purposes	$ 7,437,284	$ 7,847,656
Contributions for capital asset acquisition	5,567,429	8,847,073
Endowment	18,620,254	14,563,556
Annuity and life income	75,833	106,385
Contributions receivable	10,570,989	11,488,510
Total temporarily restricted net assets	$ 42,271,789	$ 42,853,180

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

	2017	2016
Student loans	$ 407,574	$ 401,842
Endowment	125,781,075	118,350,029
Annuity and life income	86,216	138,814
Funds held in trust by others	10,717,388	10,265,209
Contributions receivable	2,244,931	2,299,367
Total permanently restricted net assets	$ 139,237,184	$ 131,455,261

8. RETIREMENT BENEFITS

The University is a participant in the Teachers Insurance and Annuity Association—College Retirement Equity Fund (TIAA-CREF), which is a defined contribution plan. TIAA-CREF does not segregate the assets, liabilities, or costs by participating employer, since the accounts are maintained on an employee-basis only. Total retirement benefit expense was approximately $4,538,000 and $4,398,000 for the years ended June 30, 2017 and 2016, respectively. Accrued retirement benefit costs are funded on a current basis.

In addition to providing retirement benefits, the University provides certain health care insurance benefits for retired employees. Substantially all of the University's employees who were hired prior to September 15, 1994, may become eligible for those benefits if they reach normal retirement age while working for the University or have elected to take early retirement under voluntary early retirement agreements. Employees hired after September 15, 1994, may elect to participate in the health care plans while bearing the full cost of premiums. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features, such as deductibles and coinsurance. The University's policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

The following tables set forth the plan's benefit obligation, fair value of plan assets, components of net periodic benefit cost, and weighted average actuarial assumptions as of June 30, 2017 and 2016:

	2017	**2016**
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 17,980,933	$ 16,403,276
Service cost	175,069	175,693
Interest cost	563,686	655,695
Actuarial loss	(1,021,426)	1,726,883
Benefits paid	(1,015,992)	(980,614)
Benefit obligation at end of period	$ 16,682,270	$ 17,980,933

	2017	**2016**
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	$ -	$ -
Employee/employer contributions	1,015,992	980,614
Benefits paid	(1,015,992)	(980,614)
Fair value of plan assets at end of period	$ -	$ -

	2017	**2016**
Components of net periodic benefit cost:		
Service cost	$ 175,069	$ 175,693
Interest cost	563,686	655,695
Amortization of prior service cost	278,536	7,865
Net periodic benefit cost	$ 1,017,291	$ 839,253

	2017	**2016**
Actuarial assumptions:		
Discount rate	3.58 %	3.22 %
Healthcare cost present trend rate	5.20 %	4.70 %
Healthcare cost ultimate trend rate (year of stabilization)	4.1% (2071)	4.1% (2071)

Mortality assumptions: RP-2014 Mortality Table with MP 2016 Projection for 2017 and MP 2015 Projection for 2016

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

As of June 30, 2017	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 83,300	$ 72,600
Effect on postretirement benefit obligations	1,668,000	1,501,000
As of June 30, 2016		
Effect on total of service and interest cost components	$ 92,063	$ 76,059
Effect on postretirement benefit obligations	1,996,607	1,673,028

Cash Contributions, Benefit Payments, and Asset Allocation—The University's postretirement benefits are unfunded, therefore cash contributions for postretirement benefits are equal to the current year benefit payments.

The following table details the expected cash contributions and benefit payments for the years ended June 30, 2018, through 2027:

2018	$ 1,011,430
2019	1,060,945
2020	1,054,873
2021	1,086,375
2022	1,046,846
Years 2023–2027	5,060,501

All benefit payments for other postretirement benefits are voluntary, as the postretirement plans are not funded, and are not subject to any minimum regulatory funding requirements. The University's postretirement plan had no plan assets as of June 30, 2017 and 2016. Benefit payments for each year represent claims paid for medical expenses, and the University anticipates the 2018 postretirement benefit payments will be made from cash generated from operations.

9. ASSET RETIREMENT OBLIGATIONS

The University records an asset retirement obligation (ARO) for legal obligations related to the retirement of long-lived physical assets. The University estimates its ARO liabilities based upon a third party estimate of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation and discounted at a credit-adjusted, risk-free rate. The University then records an ARO asset associated with the liability. The ARO assets are depreciated over their expected lives, and the ARO liabilities are accreted to the projected spending date. Changes in estimates could occur due to plan revisions, changes in estimated costs, or changes in timing of the performance of removal activities.

The University follows ASC 410-20, *Asset Retirement and Environmental Obligations*. ASC 410-20 clarifies that the term refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, the University is required to recognize a liability for the fair value of a conditional ARO if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional ARO is factored into the measurement of the liability when sufficient information exists.

The change in the balance of the total ARO liability which is recorded in “Other Liabilities” in the statements of financial position is summarized as follows:

	For The Year Ended June 30, 2017	**For The Year Ended June 30, 2016**
Beginning balance	$ 1,626,689	$ 1,588,012
Accretion	49,231	38,677
Ending balance	$ 1,675,920	$ 1,626,689

The ARO liability represents the University’s legal obligation to remove asbestos in an environmentally acceptable manner from certain buildings on campus.

10. ALLOCATION OF CERTAIN EXPENSES

The University allocates operation and maintenance of plant, depreciation, amortization, and asset retirement obligation expense, and interest expense based on proportional expenditures using estimates of building square footage and the functional use of each facility financed by debt. No expenses have been allocated to the Research functional expense line item because it does not have its own dedicated building square footage. For the years ended June 30, 2017 and 2016, the following allocation of expenses was included in the statements of activities:

2017	**Operation and Maintenance**	**Depreciation, Amortization, and ARO Expense**	**Interest Expense**	**Total**
Instruction	$ 2,510,750	$2,202,117	$ 701,399	$ 5,414,266
Public service	136,218	119,887		256,105
Academic support	1,199,080	1,066,935	143,708	2,409,723
Student services	2,695,130	2,395,642	276,373	5,367,145
Institutional support	652,771	534,116	45,202	1,232,089
Auxiliary enterprises	2,606,795	2,295,475	793,564	5,695,834
	$ 9,800,744	$8,614,172	$1,960,246	$20,375,162

The University has a process of allocating other costs through the operation and maintenance process. Included in the operation and maintenance amounts above are amortization expense of approximately $12,000 and interest expense of approximately $263,000 for the year ended June 30, 2017.

2016	**Operation and Maintenance**	**Depreciation, Amortization, and ARO Expense**	**Interest Expense**	**Total**
Instruction	$ 2,579,674	$2,087,742	$ 138,734	$ 4,806,150
Public service	143,211	115,926		259,137
Academic support	1,260,639	1,031,957	138,917	2,431,513
Student services	2,795,843	2,286,460	279,127	5,361,430
Institutional support	686,283	509,996	40,205	1,236,484
Auxiliary enterprises	2,843,160	2,300,730	888,213	6,032,103
	$10,308,810	$8,332,811	$1,485,196	$20,126,817

The University has a process of allocating other costs through the operation and maintenance process. Included in the operation and maintenance amounts above are amortization expense of approximately $12,000 and interest expense of approximately $244,000 for the year ended June 30, 2016.

11. FAIR VALUE MEASUREMENTS

The University records certain of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Securities are carried at fair value on a recurring basis. The University uses quoted market prices and observable inputs to the maximum extent possible when measuring fair value. When market data is not available, fair value is determined using valuation models that incorporate management's estimates of the assumptions a market participant would use in pricing the asset or liability.

Under ASC 820, fair value measurements are classified among three levels based on the observability of the inputs used to determine fair value:

Level 1—Unadjusted quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques, which incorporate management's own estimates of assumptions that market participants would use in pricing the instrument or valuations that require significant management judgment or estimation.

Transfers between levels occur when there is a change in the observability of significant inputs. This may occur between Level 1 and Level 2 when the availability of quoted prices changes, or when market activity significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. The University's policy is to recognize all transfers at the end of each reporting period. There were no transfers between levels during the years ended June 30, 2017 and 2016.

In accordance with ASC 820, the tables below include the major categorization for assets and liabilities measured at fair value on a recurring basis on the basis of their nature and risk at June 30, 2017 and 2016.

	Fair Value Measurements at June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	$ 19,373,872	$ -	$ -	$ 19,373,872
Money market accounts and certificates of deposits	12,683,651	105,000		12,788,651
Mutual funds:				
Domestic equity	74,092,009			74,092,009
International equity	34,284,585			34,284,585
Fixed income	8,677,647			8,677,647
Common stocks—domestic equity	416,568			416,568
Government bonds		693,226		693,226
Funds held in trust by others			10,717,388	10,717,388
Total assets	$ 149,528,332	$ 798,226	$ 10,717,388	161,043,946
Funds valued at NAV				63,504,044
Total assets				$ 224,547,990
Liabilities—interest rate swaps	$ -	$ 5,400,993	$ -	$ 5,400,993

	Fair Value Measurements at June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	$ 26,214,537	$ -	$ -	$ 26,214,537
Money market accounts and certificates of deposits	24,136,088	90,000		24,226,088
Mutual funds:				
Domestic equity	67,357,311			67,357,311
International equity	29,859,766			29,859,766
Fixed income	8,009,402			8,009,402
Common stocks—domestic equity	411,937			411,937
Government bonds		722,562		722,562
Funds held in trust by others			10,265,209	10,265,209
Total assets	$ 155,989,041	$ 812,562	$ 10,265,209	167,066,812
Funds valued at NAV				59,091,029
Total assets				$ 226,157,841
Liabilities—interest rate swaps	$ -	$ 7,651,610	$ -	$ 7,651,610

Private equity funds primarily include investments with managers who implement long-only equity strategies, but also include certain global macro strategies, with some exposure to the credit markets. Private equity funds have original redemption lock-up periods that range from 5 years to 12 years, with remaining periods ranging from 1 year to 4 years as of June 30, 2017 and 2016, at which time the investments close. Assets in this category are invested in side pockets, which are less liquid and are generally restricted from redemption. Unfunded commitments as of June 30, 2017 and 2016, are $8,831,983 and $5,405,318, respectively.

Limited partnership interests are generally master fund arrangements which invest in long/short equity, commodity, and fixed income instruments. Some of these partnerships interests have redemption lock-up periods, and have redemption notice periods ranging from quarterly to annual. The University has no unfunded commitments as of June 30, 2017 and 2016.

Fair values on marketable securities, such as mutual funds and common stocks, are based on quoted market prices from an active exchange or from an active dealer market. The University's cash equivalents and money market accounts are highly liquid assets with daily pricing.

Certificates of deposit, bonds, and commingled bond funds are often traded in less active markets with pricing being determined by looking at a similar asset that is currently trading.

The fair value of the University's investments in limited partnerships, private equity funds, commingled bond fund, and commingled equity represent the value of its NAV in these investment vehicles as reported by the fund managers in accordance with the practical expedient, as defined by ASU 2009-12. In accordance with ASU 2015-07, investments valued at NAV are not included within any level in the fair value hierarchy. All valuations utilize financial information supplied by the general partner of each limited partnership or the fund manager and are net of management fees and incentive allocations pursuant to the applicable investment agreements. The fair value of the University's investments in these investment vehicles generally starts with the NAV of the University's investment in the investment vehicle as reported by the general partner of each limited partnership or the fund manager, who determines the value of the limited investment vehicle's NAV in a manner consistent with ASC Topic 946, *Financial Services—Investment Companies*. The University may conclude in certain circumstances that, after considering information reasonably available at the time the valuation is made and that the University believes to be reliable, the NAV provided by the general partner of each limited partnership or the fund manager is not representative of the fair value of the University's interest in the investment vehicle. At June 30, 2017 and 2016, no valuation adjustments to the NAV provided by the general manager or fund manager have been made by the University. Due to the inherent uncertainty of valuation, the value of the University's investments in such investment vehicles may differ significantly from the values that would have been used had an active market for the investments held by the University been available.

The tables below present rollforwards of the financial instruments measured at fair value on a recurring basis classified as Level 3. The classification of an item as Level 3 is based on the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 measurements may also include observable components of value that can be validated externally. Accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

	Funds Held in Trust	**Total Level 3 Fair Value Measurements**
Fair value at July 1, 2016	$ 10,265,209	$ 10,265,209
Total realized and unrealized gains (losses) included in change in net assets	452,179	452,179
Fair value at June 30, 2017	$ 10,717,388	$ 10,717,388
Changes in unrealized gains or (losses) included in change in net assets related to financial instruments still held at June 30, 2017	$ 452,179	$ 452,179

	Funds Held in Trust	**Total Level 3 Fair Value Measurements**
Fair value at July 1, 2015	$ 10,587,111	$ 10,587,111
Total realized and unrealized gains (losses) included in change in net assets	(321,902)	(321,902)
Fair value at June 30, 2016	$ 10,265,209	$ 10,265,209
Changes in unrealized gains or (losses) included in change in net assets related to financial instruments still held at June 30, 2016	$ (321,902)	$ (321,902)

In accordance with the fair value measurements and disclosures guidance, the following table presents the category, fair value, redemption frequency, and redemption notice period for investments where the fair values have been estimated using NAV as of June 30, 2017 and 2016.

2017	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**	**Redemption Lockup Period**
Investment type:				
Limited partnerships	$18,495,548	Quarterly	45 days	N/A
Limited partnerships	10,761,663	Annually	107 days	N/A
Limited partnerships	7,553,838	Quarterly	60 days	N/A
Private equity funds	2,243,751	None	N/A	N/A
Private equity funds	980,949	None	N/A	2 years
Private equity funds	184,101	None	N/A	N/A
Private equity funds	2,842,841	None	N/A	1 year
Private equity funds	1,754,130	None	N/A	3 years
Private equity funds	419,047	None	N/A	4 years
Commingled bond fund	14,873,463	Daily	N/A	N/A
Commingled bond fund	3,394,713	Monthly	60 days	1 year
Total	$63,504,044			

2016	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**	**Redemption Lockup Period**
Investment type:				
Limited partnerships	$16,557,147	Quarterly	45 days	N/A
Limited partnerships	9,549,414	Annually	107 days	N/A
Limited partnerships	5,157,869	Quarterly	60 days	1 year
Private equity funds	2,819,118	None	N/A	N/A
Private equity funds	1,917,647	None	N/A	3 years
Private equity funds	615,966	None	N/A	N/A
Private equity funds	2,336,502	None	N/A	2 years
Private equity funds	2,099,721	None	N/A	4 years
Commingled bond fund	13,412,310	Daily	N/A	N/A
Commingled equity fund	4,625,335	Monthly	60 days	1 year
Total	$59,091,029			

12. SUBSEQUENT EVENTS

Subsequent events related to the financial statements have been evaluated through October 6, 2017, the date the financial statements were available to be issued, and it has been determined that there are no events that require adjustment to, or disclosure in, these financial statements.

* * * * * *

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

DRAKE UNIVERSITY INTERCOLLEGIATE ATHLETIC DEPARTMENT

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Men's Football	Men's Basketball	Men's Other	Women's Basketball	Women's Other	Drake Relays	Non-Program Specific	Total
REVENUES:								
Ticket sales	$ 31,267	$ 414,225	$ 9,091	$ 118,779	$ 17,779	$ 480,480	$ 43,856	$ 1,115,477
Game guarantees	155,000	65,000	8,500	4,000	2,000			234,500
Contributions	59,717	103,150	97,826	153,980	144,781	114,892	948,771	1,623,117
In-kind contributions								
NCAA and conference distributions							1,300,810	1,300,810
Programs, parking and concessions	804	10,260		590		24,062	103,469	139,185
Royalties and sponsorships						1,291,965	859,078	2,151,043
Sports camp revenue							23,798	23,798
Direct institutional support							4,479,613	4,479,613
Other	2,580		17,027	7,415	12,965	215,121	30,832	285,940
Total revenues	249,368	592,635	132,444	284,764	177,525	2,126,520	7,790,227	11,353,483
EXPENSES:								
Athletic student aid		593,797	1,161,209	594,332	2,274,186			4,623,524
Guarantees	20,000	173,563	3,156	5,200		598,664		800,583
Coaching salaries, benefits, bonuses	470,635	980,942	387,299	489,143	765,367			3,093,386
Support staff and administration salaries, severance		192,307		65,636		171,800	2,237,195	2,666,938
Recruiting	39,700	96,788	9,205	45,532	50,100		16,000	257,325
Team travel	286,387	307,875	227,878	389,285	408,616		31,202	1,651,243
Equipment, uniforms and supplies	122,356	95,485	111,242	53,917	171,272	72,186	67,592	694,050
Game expenses	70,699	122,265	30,076	100,697	69,174	436,965	65,366	895,242
Fundraising and marketing				2,750			211,496	214,246
Sports camp expenses							7,338	7,338
Maintenance and facilities			911		3,199	6,251	4,511	14,872
Spirit groups							47,075	47,075
Medical expenses and insurance							247,148	247,148
Memberships and dues	4,015	5,807	5,142	270	2,568		36,230	54,032
Other operating expenses	14,390	364,767	22,426	45,879	32,156	12,640	506,532	998,790
Total operating expenses	1,028,182	2,933,596	1,958,544	1,792,641	3,776,638	1,298,506	3,477,685	16,265,792
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	$ (778,814)	$ (2,340,961)	$ (1,826,100)	$ (1,507,877)	$ (3,599,113)	$ 828,014	$ 4,312,542	$ (4,912,309)

NOTE: This schedule does not include an allocation of institutional support to the various athletic programs.

DRAKE UNIVERSITY

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

CFDA Number	Federal Grantor / Pass-Through Grantor / Program Title	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
	Student Financial Assistance Cluster:			
	Department of Education:			
84.063	Federal Pell Grant Program		$ -	$ 2,243,700
84.007	Federal Supplemental Educational Opportunity Grants			703,221
84.033	Federal Work-Study Program			489,739
84.038	Federal Perkins Loan Program—Federal Capital Contributions			12,376,730
84.268	Federal Direct Student Loans			40,333,445
	Total Department of Education			56,146,835
	Department of Health and Human Services—			
	Health Professional Student Loans, Including Primary Care			
93.342	Loans and Loans for Disadvantaged Students			3,471,257
93.599	Federal Misc. Student Aid			70,412
	Total Student Financial Assistance Cluster			59,688,504
	Research and Development Cluster:			
	National Aeronautics and Space Administration—			
	Passed through University of Northern Iowa:	S6166B		
43.008	Education/NASA	4222019D; 4222019H		71,513
	Total National Aeronautics and Space Administration			71,513
	Department of Health and Human Services:			
	Passed through University of Pittsburgh:			
93.859	Biomedical Research and Research Training	0046232 (126373-1)		7,633
	Total Department of Health and Human Services			7,633
	Department of Education:			
	Passed through University of Kansas—			
84.324A	Research in Special Education	FY2013-005		55,330
	Passed through Board of Regents-State of Iowa			
84.367B	Academic Improvement & Teacher Quality		38,608	134,965
	Mathematics & Science Partnerships-Academic	M-2014-01		
84.366B	Improvement & Teacher Quality	DRK2017-03	50,174	101,885
	Total Department of Education		88,782	292,180

(Continued)

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

CFDA Number	Federal Grantor / Pass-Through Grantor / Program Title	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
	Research and Development Cluster (continued):			
	Department of Agriculture:			
10.902	Soil and Water Conservation	68-6114-15-011 68-6114-14-010	$ -	$ 42,280
	Total Department of Agriculture			42,280
	National Security Agency:			
12.901	Mathematical Sciences Grants Program	H98230-16-1-0310		10,471
	National Science Foundation:			
47.049	Mathematical and Physical Sciences	PHY-1520970 PHY-1403245		171,772
	Passed through University of Alaska Southeast:			
47.050	Geosciences	2016J02-1600049		11,054
47.075	Social, Behavioral and Economic Sciences	1455842		23,442
	Total National Science Foundation			206,268
	Total Research and Development Cluster			630,345
	Other Federal Assistance:			
	Department of Education—			
84.129	Rehabilitation—Long-term Training	H129B140048		332,239
	Total Department of Education—Other federal assistance			332,239
	Department of Agriculture:			
10.001	USDA - Ag Research Basic and Applied			36
10.902	Soil and Water Conservation	68-114-15-012		3,033
	Passed through Iowa Department of Education—			
10.558	Child and Adult Care Food Program			201,793
	Total Department of Agriculture—Other federal assistance			204,862
	National Endowment for the Humanities—			
45.129	Promotion of the Humanities	39-1-002		10,000

(Continued)

DRAKE UNIVERSITY

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

CFDA Number	Federal Grantor / Pass-Through Grantor / Program Title	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
	Other Federal Assistance (continued):			
	Department of Health and Human Services—			
93.600	Head Start	07HP0001/01; 07CH999102; 07HP0001; 07P0001002; 07HP000101	$ 1,720,756	$ 8,288,986
	Corporation for National and Community Service —			
	Passed through Iowa Commission on Volunteer Service:			
94.006	Americorps (Recovery)	15-AF-02		53,359
	Passed through Iowa Western Community College:			
94.007	Federal Domestic Assistance - MLK Day of Service	15MKHIA001		1,311
	Department of Justice —			
	Passed through Mercy College of Health Sciences:			
16.525	Grants to Reduce Domestic Violence - Dating Violence, Sexual Assault and Stalking on Campus- Violence Against Women			19,245
	US Department of State —			
	Passed IREX:			
19.009	Academic Exchange - Young African Leadership Initiative	FY16-YALI-BE-DRAKE-01 FY17-YALI-BE-DRAKE-02		146,827
			1,720,756	8,509,728
	Department of Housing and Urban Development—			
	Passed through Polk County:			
64.028	Post-9/11 Veterans Educational Assistance			655,945
	TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 1,809,538	$ 70,031,623

See notes to supplementary schedule of expenditures of federal awards. (Concluded)

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of 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 and does not present the financial position, changes in net assets or cash flows of the University.

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. Negative amounts shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The University does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

3. STUDENT LOANS

Loan balances outstanding at June 30, 2017, for which the University continues to have federal compliance requirements are included in the University’s financial statements and as federal expenditures in the Schedule. Outstanding balances of student loans held by the University at June 30, 2017, were as follows:

Program Title	CFDA #	Loans Outstanding
Federal Perkins Loan Program - Federal Capital Contributions	84.038	$ 11,929,483
Health Professional Student Loans, including Primary Care Loans and Loans for Disadvantaged Students	93.342	3,425,220
		$ 15,354,703

The University is responsible only for the performance of certain administrative duties with respect to Federal Direct Student Loans (Direct Loans) and, accordingly, these loans are not included in the University’s financial statements. The federal expenditures in the Schedule related to Direct Loans represent the dollar amount of loans disbursed during the year ended June 30, 2017.

Deloitte.

Deloitte & Touche LLP
699 Walnut Street
Suite 1800
Des Moines, Iowa 50309-9964
USA

Tel: 515-288-1200
Fax: 515-288-1200
www.deloitte.com

INDEPENDENT AUDITORS' 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*

The Board of Trustees
Drake University
Des Moines, 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 financial statements of Drake University (the "University"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 6, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Deloitte & Touche LLP

October 6, 2017

Deloitte & Touche LLP
699 Walnut Street
Suite 1800
Des Moines, Iowa 50309-9964
USA

Tel: 515-288-1200
Fax: 515-288-1200
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Trustees
Drake University
Des Moines, Iowa

Report on Compliance for Each Major Federal Program

We have audited Drake 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 each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are 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 each of the University's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2017.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Deloitte & Touche LLP

October 6, 2017

DRAKE UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

PART 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 not considered to be material weaknesses?	None Reported	
Noncompliance material to financial statements noted?	No	
FEDERAL AWARDS:		
Internal control over major programs:		
- Material weakness(es) identified?	No	
- Significant deficiencies identified not considered to be material weaknesses?	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 Uniform Guidance?	No	
Identification of major programs:		
Name of Federal Program or Cluster		
Student Financial Assistance Cluster	$	59,688,504
Child and Adult Care Food Program		201,793

The Student Financial Assistance Cluster is defined by the Uniform Guidance as including those programs of general student assistance, such as those authorized by Title IV of the Higher Education Act of 1965, as amended, which is administered by the U.S. Department of Education, and similar programs provided by other federal agencies.

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

Part II: SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None