

DRAKE UNIVERSITY

Financial Statements as of and for the Years
Ended May 31, 2011 and 2010 and Independent
Auditors' Report

DRAKE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Drake University
Des Moines, Iowa

We have audited the accompanying statements of financial position of Drake University (the "University") as of May 31, 2011 and 2010, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of University management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Drake University, as of May 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 24, 2011

DRAKE UNIVERSITY

STATEMENTS OF FINANCIAL POSITION AS OF MAY 31, 2011 AND 2010

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 23,756,659	\$ 21,307,271
STUDENT ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE — Net of allowance of \$250,000 in 2011 and 2010	4,196,147	5,080,191
U.S. GOVERNMENT RECEIVABLES	752,043	957,683
PREPAID EXPENSES AND INVENTORIES	1,686,752	1,359,480
CONTRIBUTIONS RECEIVABLE — Net	17,035,864	10,836,557
OTHER ASSETS	1,346,045	1,395,415
U.S. GOVERNMENT LOANS RECEIVABLE — Net of allowance of \$290,000 in 2011 and 2010	15,006,115	16,367,880
INVESTMENTS:		
Money market accounts, commercial paper and certificates of deposit	15,333,605	20,695,327
Bonds	22,308,984	20,604,506
Common stocks and mutual funds	51,455,572	59,148,463
Cash surrender value of life insurance policies	4,406,221	4,379,242
Limited partnership and similar nonmarketable equity interests	49,328,150	23,382,301
Real estate	<u>8,031,054</u>	<u>8,162,753</u>
Total investments	<u>150,863,586</u>	<u>136,372,592</u>
LAND, BUILDINGS, AND EQUIPMENT:		
Land	23,436,960	23,167,443
Buildings	172,099,388	163,142,972
Equipment	55,637,033	53,948,312
Construction in progress	<u>1,478,785</u>	<u>3,236,551</u>
	252,652,166	243,495,278
Less accumulated depreciation	<u>(90,807,312)</u>	<u>(84,142,668)</u>
Land, buildings, and equipment — net	<u>161,844,854</u>	<u>159,352,610</u>
FUNDS HELD IN TRUST BY OTHERS	<u>9,551,224</u>	<u>8,618,154</u>
TOTAL ASSETS	<u>\$ 386,039,289</u>	<u>\$ 361,647,833</u>

(Continued)

DRAKE UNIVERSITY

STATEMENTS OF FINANCIAL POSITION AS OF MAY 31, 2011 AND 2010

	2011	2010
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 7,854,717	\$ 8,813,318
Student deposits and deferred income	8,023,974	7,838,660
Other liabilities	7,807,306	7,481,304
Annuities payable	3,370,776	3,165,712
Bonds payable	56,730,000	62,600,000
Accrued postretirement benefit obligation	15,273,323	15,073,323
U. S. government grants refundable	<u>11,947,140</u>	<u>13,280,053</u>
 Total liabilities	 <u>111,007,236</u>	 <u>118,252,370</u>
NET ASSETS:		
Unrestricted	138,514,527	125,044,678
Temporarily restricted	34,420,639	22,934,755
Permanently restricted	<u>102,096,887</u>	<u>95,416,030</u>
 Total net assets	 <u>275,032,053</u>	 <u>243,395,463</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 386,039,289</u>	 <u>\$ 361,647,833</u>

See notes to financial statements.

(Concluded)

DRAKE UNIVERSITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Revenue, gains and other support:				
Student tuition and fees	\$ 128,567,015	\$ -	\$ -	\$ 128,567,015
Less scholarships and fellowships	<u>(48,496,172)</u>			<u>(48,496,172)</u>
Net student tuition and fees	80,070,843	-	-	80,070,843
Government grants and contracts	9,528,261			9,528,261
Private grants and contracts	58,949	1,080,556		1,139,505
Private gifts	3,356,628	4,757,108		8,113,736
Endowment income used in operations	6,699,697			6,699,697
Sales and services of auxiliary enterprises	21,057,869			21,057,869
Other income	2,373,132			2,373,132
Net assets released from restriction	<u>3,149,643</u>	<u>(3,149,643)</u>		<u>-</u>
Total operating revenues	<u>126,295,022</u>	<u>2,688,021</u>	<u>-</u>	<u>128,983,043</u>
OPERATING EXPENSES:				
Instruction	39,142,323			39,142,323
Research	1,045,937			1,045,937
Public service	9,187,803			9,187,803
Academic support	19,796,236			19,796,236
Student services	10,685,284			10,685,284
Institutional support	15,690,429			15,690,429
Auxiliary enterprises	<u>27,924,230</u>			<u>27,924,230</u>
Total operating expenses	<u>123,472,242</u>	<u>-</u>	<u>-</u>	<u>123,472,242</u>
Change in net assets from operations	<u>2,822,780</u>	<u>2,688,021</u>	<u>-</u>	<u>5,510,801</u>
NONOPERATING ACTIVITIES:				
Contributions for nonoperating purposes	626,242	7,426,136	5,776,495	13,828,873
Net unrealized gains from investments	9,652,494	4,248,079	1,059,883	14,960,456
Reinvested net gains (losses) and income (loss) from investments	(1,421,383)	(668,242)	187,850	(1,901,775)
Change in value of split interest agreements	12,057	(50,748)	(326,632)	(365,323)
Loss on disposal of property and equipment	(137,710)			(137,710)
Change in fair value of interest rate swap agreements	(241,993)			(241,993)
Other nonoperating activities			(16,739)	(16,739)
Net assets released from restriction	<u>2,157,362</u>	<u>(2,157,362)</u>		<u>-</u>
Change in net assets from nonoperating activities	<u>10,647,069</u>	<u>8,797,863</u>	<u>6,680,857</u>	<u>26,125,789</u>
CHANGE IN NET ASSETS	13,469,849	11,485,884	6,680,857	31,636,590
NET ASSETS — Beginning of year	<u>125,044,678</u>	<u>22,934,755</u>	<u>95,416,030</u>	<u>243,395,463</u>
NET ASSETS — End of year	<u>\$ 138,514,527</u>	<u>\$ 34,420,639</u>	<u>\$ 102,096,887</u>	<u>\$ 275,032,053</u>

See notes to financial statements.

DRAKE UNIVERSITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Revenue, gains and other support:				
Student tuition and fees	\$ 122,527,144	\$ -	\$ -	\$ 122,527,144
Less scholarships and fellowships	<u>(45,641,090)</u>			<u>(45,641,090)</u>
Net student tuition and fees	76,886,054	-	-	76,886,054
Government grants and contracts	9,801,953			9,801,953
Private grants and contracts	86,004	1,094,891		1,180,895
Private gifts	2,910,849	3,511,357		6,422,206
Endowment income used in operations	6,301,735			6,301,735
Sales and services of auxiliary enterprises	20,560,682			20,560,682
Other income	2,204,216			2,204,216
Net assets released from restriction	<u>2,578,900</u>	<u>(2,578,900)</u>		<u>-</u>
Total operating revenues	<u>121,330,393</u>	<u>2,027,348</u>	<u>-</u>	<u>123,357,741</u>
OPERATING EXPENSES:				
Instruction	36,294,421			36,294,421
Research	1,110,357			1,110,357
Public service	9,309,367			9,309,367
Academic support	19,497,062			19,497,062
Student services	9,921,579			9,921,579
Institutional support	15,109,451			15,109,451
Auxiliary enterprises	<u>27,712,700</u>			<u>27,712,700</u>
Total operating expenses	<u>118,954,937</u>	<u>-</u>	<u>-</u>	<u>118,954,937</u>
Change in net assets from operations	<u>2,375,456</u>	<u>2,027,348</u>	<u>-</u>	<u>4,402,804</u>
NONOPERATING ACTIVITIES:				
Contributions for nonoperating purposes	398,427	1,937,697	6,174,524	8,510,648
Net unrealized gains from investments	9,176,190	3,616,913	694,512	13,487,615
Reinvested net gains (losses) and income (loss) from investments	(3,452,437)	(1,291,605)	178,888	(4,565,154)
Change in value of split interest agreements	(413,031)	(868,764)	317,841	(963,954)
Loss on disposal of property and equipment	(127,488)			(127,488)
Change in fair value of interest rate swap agreements	(322,163)			(322,163)
Other nonoperating activities	1,302,575		4,673	1,307,248
Net assets released from restriction	<u>5,859,167</u>	<u>(5,859,167)</u>		<u>-</u>
Change in net assets from nonoperating activities	<u>12,421,240</u>	<u>(2,464,926)</u>	<u>7,370,438</u>	<u>17,326,752</u>
CHANGE IN NET ASSETS	14,796,696	(437,578)	7,370,438	21,729,556
NET ASSETS — Beginning of year	<u>110,247,982</u>	<u>23,372,333</u>	<u>88,045,592</u>	<u>221,665,907</u>
NET ASSETS — End of year	<u>\$ 125,044,678</u>	<u>\$ 22,934,755</u>	<u>\$ 95,416,030</u>	<u>\$ 243,395,463</u>

See notes to financial statements.

DRAKE UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 31,636,590	\$ 21,729,556
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,402,386	7,023,484
Net unrealized gains from investments	(14,960,456)	(13,487,615)
Change in fair value of interest rate swap agreements	241,993	322,163
Net realized (gains) losses from investments	(1,936,814)	907,851
Loss on disposal of property and equipment	137,710	127,488
Change in value of split interest agreements	365,323	963,954
Contributions restricted for long-term investment	(5,487,003)	(6,174,524)
Income restricted for long-term investment	(187,850)	(178,888)
Noncash contributions of investments	(3,305,760)	(456,296)
Change in:		
Student accounts, notes and U.S. government receivables	1,089,682	1,975,452
Prepaid expenses and inventories	(327,272)	(74,995)
Contributions receivable	(6,199,307)	(3,379,216)
Other assets	(71,813)	85,842
Accounts payable and accrued expenses	(842,748)	456,826
Student deposits and deferred income	185,314	495,390
Other liabilities	31,573	1,819
Accrued postretirement benefit obligation	200,000	1,384,183
	<u>7,971,548</u>	<u>11,722,474</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(46,039,778)	(41,678,691)
Proceeds from sales and maturities of investments	50,687,044	46,459,109
Purchases of property and equipment	(9,980,576)	(7,482,579)
Proceeds from sales of property and equipment	6,000	0
Issuance of U.S. government loans receivable	(782,391)	(1,684,027)
Payments from U.S. government loans receivable	2,144,161	1,791,325
Net real estate and contracts receivable activity	131,699	(87,758)
	<u>(3,833,841)</u>	<u>(2,682,621)</u>
Net cash used in investing activities		

(Continued)

DRAKE UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on bonds payable	\$ (5,870,000)	\$ (2,720,000)
Payments to annuitants	(160,259)	(10,616,622)
Contributions restricted for long-term investment	5,487,003	6,174,524
Income restricted for long-term investment	187,850	178,888
Increase (decrease) in U. S. government grants refundable	<u>(1,332,913)</u>	<u>155,492</u>
Net cash used in financing activities	<u>(1,688,319)</u>	<u>(6,827,718)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,449,388	2,212,135
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>21,307,271</u>	<u>19,095,136</u>
End of year	<u>\$ 23,756,659</u>	<u>\$ 21,307,271</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 2,443,720</u>	<u>\$ 2,578,151</u>
Amounts included in year-end accounts payable for purchases of property and equipment	<u>\$ 161,607</u>	<u>\$ 277,463</u>

See notes to financial statements.

(Concluded)

DRAKE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED MAY 31, 2011 AND 2010

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. 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 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). In July 2008, Iowa enacted a new 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 of Trustees (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 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) and income (loss).

Operating and Nonoperating Activities — The statements of activities reports 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, and significant items of an unusual or nonrecurring nature.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and 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 at May 31, 2011, that exceeded the balance insured by the F.D.I.C. in the amount of approximately \$23 million.

Income Taxes — The University has received a tax determination letter from the 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.

Inventories — Inventories of the University, primarily composed of printing supplies and physical plant items, are stated at the lower of cost (first-in, first-out) or market.

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 May 31, 2011 and 2010, as follows:

	2011		2010	
Vanguard Institutional Index Fund #94	\$ 21,961,753	15 %	\$ 17,564,820	13 %
Baird Aggregate Bond Fund	*		14,549,770	11
Aurora Offshore Fund Limited, Class A	19,331,465	13	17,931,029	13
ABS Offshore SPC	16,117,541	11	14,533,223	11
Tax Free Money Market Fund	*		15,330,660	11

* Investment did not exceed 10% of total investments during year

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 \$5,164,000 and \$4,501,000 at May 31, 2011 and 2010, 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 8.9% as of May 31, 2011 and 2010. Annuities payable total approximately \$3,371,000 and \$3,166,000 at May 31, 2011 and 2010, 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 May 31, 2011 and 2010. Costs incurred for building materials and equipment comprises construction in progress.

Funds Held in Trust by Others — Funds held in trust by others are recorded at fair value. These investments, which are not in the possession or under the control of the University, are administered by outside fiscal agents, with the University deriving income from the investments as stipulated by the various gift instruments.

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.

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.

The carrying value of notes receivable 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 was \$56,730,000 and \$62,600,000 at May 31, 2011 and 2010, respectively; the fair value was approximately \$59,442,000 and \$65,038,000 at May 31, 2011 and 2010, 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 FASB Accounting Standards Codification (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.

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 \$48,496,000 and \$45,641,000 for the years ended May 31, 2011 and 2010, respectively.

Fund-Raising Expenses — Fund-raising expenses for the University consist of development expenses, capital campaign costs, and alumni relations. Total fund-raising expenses for the years ended May 31, 2011 and 2010, were approximately \$4,407,000 and \$3,634,000, 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, parking, and intercollegiate athletics. 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 pension plan, the benefit obligation is the projected benefit obligation; for any other 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.

Recent Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures* (ASU No. 2010-06), which amends ASC 820 (originally issued as FASB Statement No. 157, *Fair Value Measurements*), adding

new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. During the year ended May 31, 2011, the University adopted the disclosure requirements applicable to Level 1 and 2 fair value measurements, and has included these disclosures in the financial statements (see Note 11). The University is currently evaluating the impact the Level 3 activity disclosure will have on its financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ASU No. 2010-20, which expanded disclosure requirements for entities that hold financing receivables, excluding short-term trade accounts receivables. The University adopted this guidance during the year ended May 31, 2011 and included the required disclosures in the financial statements (see Note 2).

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 May 31, 2011 student loans represented 3.9% of total assets.

Student loans at May 31, 2011 are summarized as follows:

	2011
Federal government programs	\$ 15,296,115
Institutional and private loans	<u>168,694</u>
	<u>15,464,809</u>
Less allowance for doubtful accounts:	
Beginning of year	(294,000)
Increases	-
Write-offs	<u>-</u>
End of year	<u>(294,000)</u>
Student loans receivable, net	<u>\$ 15,170,809</u>

The University participates in the Perkins and Health Professional 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 \$11,947,140 as of May 31, 2011 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 May 31, 2011:

Past Due	2011
1–60 days	\$ 4,219
60–90 days	3,059
90+ days	<u>1,153,529</u>
 Total past due	 <u>\$ 1,160,807</u>

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

Contributions Receivable — Net contributions receivable at May 31, 2011 and 2010, are summarized as follows:

	2011	2010
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,154,158	\$ 3,482,920
One year to five years	13,714,308	8,114,300
Over five years	<u>1,767,500</u>	<u>2,215,000</u>
	20,635,966	13,812,220
Less:		
Unamortized discount on contributions receivable (1.5%–6.3%)	(1,166,407)	(1,427,583)
Allowance for uncollectible contributions	<u>(2,433,695)</u>	<u>(1,548,080)</u>
 Contributions receivable — net	 <u>\$ 17,035,864</u>	 <u>\$ 10,836,557</u>

Contributions receivable are distributed between net asset classifications as follows at May 31, 2011 and 2010:

	2011	2010
Temporarily restricted for:		
Operating purposes	\$ -	\$ 23,528
Capital projects	5,525,524	3,232,678
Other	<u>5,525,905</u>	<u>3,481,765</u>
	11,051,429	6,737,971
Permanently restricted for endowment	<u>5,984,435</u>	<u>4,098,586</u>
 Contributions receivable — net	 <u>\$ 17,035,864</u>	 <u>\$ 10,836,557</u>

3. INVESTMENT GAIN/LOSS

For the years ended May 31, 2011 and 2010, investment gain (loss) consisted of the following:

	2011	2010
Interest, rents, and dividends	\$ 3,115,063	\$ 2,901,887
Net realized gains (losses) from investments	1,936,814	(907,851)
Investment expenses	<u>(253,955)</u>	<u>(257,455)</u>
Investment income — net	4,797,922	1,736,581
Net unrealized gains from investments	<u>14,960,456</u>	<u>13,487,615</u>
Net investment gain	<u>\$19,758,378</u>	<u>\$15,224,196</u>

For the years ended May 31, 2011 and 2010, as reflected in the statements of activities, investment gain (loss) was as follows:

	2011	2010
Operating revenues — endowment income used in operations	\$ 6,699,697	\$ 6,301,735
Nonoperating activities:		
Net unrealized gains from investments	14,960,456	13,487,615
Reinvested net losses and loss from investments	<u>(1,901,775)</u>	<u>(4,565,154)</u>
Net investment gain	<u>\$19,758,378</u>	<u>\$15,224,196</u>

4. BONDS PAYABLE

Bonds payable at May 31, 2011 and 2010, are as follows:

	2011	2010
Series 1996 — Private College Refunding Revenue Bonds, 6.5% term bonds maturing December 1, 2011. A surety bond has been purchased to cover the debt service reserve requirement. As of May 31, 2011 and 2010, the bond interest rate was 6.5%.	\$ 1,240,000	\$ 2,425,000
Series 2007 — Private University Revenue Bonds maturing serially through April 1, 2022. Bond interest rates are fixed from 4.0% to 5.0%. Loaned pursuant to the Series 2005 bond agreement as amended April 1, 2007. As of May 31, 2011 and 2010, the bond interest rate was 4.0%.	17,480,000	18,680,000
Series 2008 — Private College Revenue Refunding Bonds. Variable rate demand bonds maturing April 1, 2031. As of May 31, 2011 and 2010, the bond interest rate was 0.14% and 0.30%, respectively.	<u>38,010,000</u>	<u>41,495,000</u>
	56,730,000	62,600,000
Less current portion	<u>(3,005,000)</u>	<u>(5,870,000)</u>
Bonds payable, long-term	<u>\$53,725,000</u>	<u>\$56,730,000</u>

The University's bonds are secured by mortgage and security agreements as defined in the Indenture Agreements. As of May 31, 2011 and 2010, the University was not in violation of any restrictive covenants set forth in the Bond and Indenture Agreements.

Reserve fund accounts totaling approximately \$660,000 and \$677,000 at May 31, 2011 and 2010, respectively, are included in "Investments" in the statements of financial position.

Maturities on bonds payable of the University subsequent to May 31, 2011, are as follows:

2012	\$ 3,005,000
2013	3,175,000
2014	3,315,000
2015	3,450,000
2016	3,630,000
Thereafter	<u>40,155,000</u>
	<u>\$56,730,000</u>

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 \$37,880,000 as of May 31, 2011.

The following tables provide approximate fair value details regarding the University's derivative financial instruments at May 31, 2011:

	As of May 31, 2011			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps		\$ -	Other liabilities	\$(6,152,000)
Total derivatives		<u>\$ -</u>		<u>\$(6,152,000)</u>

Year Ended May 31, 2011			Amount of Loss Recognized in Income on Derivatives
Location of Loss Recognized in Income			
Interest rate swaps	Change in fair value of interest rate swap agreements		<u>\$ 242,000</u>
Total			<u>\$ 242,000</u>

The following tables provides approximate fair value details regarding the University's derivative financial instruments at May 31, 2010:

	As of May 31, 2010			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps		\$ -	Other liabilities	\$5,910,000
Total derivatives		<u>\$ -</u>		<u>\$5,910,000</u>

Year Ended May 31, 2010			Amount of Loss Recognized in Income on Derivatives
Location of Loss Recognized in Income			
Interest rate swaps	Change in fair value of interest rate swap agreements		<u>\$(322,000)</u>
Total			<u>\$(322,000)</u>

The liability under interest rate swap agreements which is included in “Other Liabilities” in the statements of financial position at May 31, 2011 and 2010, is approximately as follows:

	2011	2010
Series 2001 (refunded into Series 2008) notional amount of \$12,000,000 at 4.49%	\$ (3,520,000)	\$ (3,457,000)
Series 2003 (refunded into Series 2008) notional amount of \$10,000,000 at 3.29%	(935,000)	(850,000)
Series 1996 (refunded into Series 2008) notional amount as of May 31, 2011 and 2010, of \$15,880,000 and \$15,985,000, respectively, at 3.48%	<u>(1,697,000)</u>	<u>(1,603,000)</u>
	<u>\$ (6,152,000)</u>	<u>\$ (5,910,000)</u>

The University incurred interest/swap expense of approximately \$2,394,000 and \$2,532,000 for the years ended May 31, 2011 and 2010, respectively.

5. CONSTRUCTION IN PROGRESS

Projects in process at May 31, 2011 and 2010, are as follows:

	2011	2010
Architect and planning fees for multiple projects	\$ 1,108,065	\$ -
Hubbell Dining Hall Renovation		2,455,634
Other	<u>370,720</u>	<u>780,917</u>
	<u>\$ 1,478,785</u>	<u>\$ 3,236,551</u>

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.

In July 2008, Iowa enacted a new version of the Iowa Uniform Prudent Management of Institutional Funds Act (IUPMIFA). IUPMIFA prescribes new 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 May 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011
Beginning balance	\$ 34,154,043	\$ 10,818,594	\$ 90,742,030	\$ 135,714,667
Total gifts	626,242		3,634,645	4,260,887
Total other changes	847,269		108,901	956,170
Return on investment:				
Interest and dividends	2,214,128	740,533		2,954,661
Management and custodial fees	(160,712)	(66,162)		(226,874)
Net realized gains from investments	1,209,605	592,997		1,802,602
Net unrealized gains from investments	<u>9,473,145</u>	<u>4,236,163</u>	<u>933,070</u>	<u>14,642,378</u>
 Total	 12,736,166	 5,503,531	 933,070	 19,172,767
Endowment income used in operations	<u>(4,760,393)</u>	<u>(1,939,304)</u>	<u> </u>	<u>(6,699,697)</u>
Endowment return net of amounts used in operations	<u>7,975,773</u>	<u>3,564,227</u>	<u>933,070</u>	<u>12,473,070</u>
 Ending balance	 <u>\$ 43,603,327</u>	 <u>\$ 14,382,821</u>	 <u>\$ 95,418,646</u>	 <u>\$ 153,404,794</u>

The endowment investment activity consisted of the following for the year ended May 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010
Beginning balance	\$ 20,746,033	\$ 8,554,884	\$ 86,105,206	\$ 115,406,123
Total gifts	434,707		3,656,448	4,091,155
Total other changes	7,865,726		185,864	8,051,590
Return on investment:				
Interest and dividends	1,920,372	661,806	100,000	2,682,178
Management and custodial fees	(162,870)	(61,831)		(224,701)
Net realized losses from investments	(741,194)	(311,908)		(1,053,102)
Net unrealized gains from investments	<u>8,637,678</u>	<u>3,730,969</u>	<u>694,512</u>	<u>13,063,159</u>
 Total	 9,653,986	 4,019,036	 794,512	 14,467,534
Endowment income used in operations	<u>(4,546,409)</u>	<u>(1,755,326)</u>	<u> </u>	<u>(6,301,735)</u>
Endowment return net of amounts used in operations	<u>5,107,577</u>	<u>2,263,710</u>	<u>794,512</u>	<u>8,165,799</u>
 Ending balance	 <u>\$ 34,154,043</u>	 <u>\$ 10,818,594</u>	 <u>\$ 90,742,030</u>	 <u>\$ 135,714,667</u>

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 May 31, 2011:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ (6,126,636)	\$ 14,382,821	\$ 85,867,422	\$ 94,123,607
Funds held in trust			9,551,224	9,551,224
Board-designated	<u>49,729,963</u>	_____	_____	<u>49,729,963</u>
Total funds	<u>\$43,603,327</u>	<u>\$14,382,821</u>	<u>\$95,418,646</u>	<u>\$153,404,794</u>

Endowment net assets were classified as follows as of May 31, 2010:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ (10,268,127)	\$ 10,818,594	\$ 82,123,876	\$ 82,674,343
Funds held in trust			8,618,154	8,618,154
Board-designated	<u>44,422,170</u>	_____	_____	<u>44,422,170</u>
Total funds	<u>\$ 34,154,043</u>	<u>\$10,818,594</u>	<u>\$90,742,030</u>	<u>\$135,714,667</u>

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 generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$6,126,636 and \$10,268,127 for the years ended May 31, 2011 and 2010, 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 exceed 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 May 31, 2011 and 2010, 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 May 31, 2011 and 2010:

	2011	2010
Unexpended contributions for restricted purposes	\$ 2,690,798	\$ 2,028,497
Contributions for capital asset acquisition	6,096,318	3,115,412
Annuity and life income	199,273	234,281
Endowment	14,382,821	10,818,594
Contributions receivable	<u>11,051,429</u>	<u>6,737,971</u>
Total temporarily restricted net assets	<u>\$34,420,639</u>	<u>\$22,934,755</u>

Permanently restricted net assets consisted of the following at May 31, 2011 and 2010:

	2011	2010
Student loans	\$ 458,667	\$ 466,367
Endowment	85,867,422	82,123,876
Annuity and life income	235,139	109,047
Funds held in trust by others	9,551,224	8,618,154
Contributions receivable	<u>5,984,435</u>	<u>4,098,586</u>
Total permanently restricted net assets	<u>\$102,096,887</u>	<u>\$95,416,030</u>

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 for the years ended May 31, 2011 and 2010, was approximately \$3,887,000 and \$3,753,000, respectively. Accrued retirement benefit costs are funded on a current basis.

In addition to providing retirement benefit, 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 at their own cost. 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 measurement date for the postretirement benefit plan is May 31. The following tables set forth the plan's benefit obligation, accrued liability, components of net periodic benefit costs, and weighted average actuarial assumptions as of May 31, 2011 and 2010:

	2011	2010
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 15,073,323	\$ 13,689,140
Service cost	214,541	168,595
Interest cost	818,607	840,305
Actuarial loss (gain)	(10,859)	1,206,489
Benefits paid	<u>(822,289)</u>	<u>(831,206)</u>
Benefit obligation at end of year	<u>\$ 15,273,323</u>	<u>\$ 15,073,323</u>
	2011	2010
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employee/employer contributions	822,289	831,206
Benefits paid	<u>(822,289)</u>	<u>(831,206)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
	2011	2010
Components of net periodic benefit cost:		
Service cost	\$ 214,541	\$ 168,595
Interest cost	818,607	840,305
Amortization of loss	214,927	10,510
Amortization of prior service cost	(108,861)	(108,861)
Amortization of transition obligation	<u>17,903</u>	<u>17,903</u>
Net periodic benefit cost	<u>\$ 1,157,117</u>	<u>\$ 928,452</u>
	2011	2010
Actuarial assumptions:		
Discount rate	5.20 %	5.60 %
Healthcare cost present trend rate	6.80	7.90
Healthcare cost ultimate trend rate (year of stabilization)	4.20% (2082)	4.20% (2080)

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:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 122,570	\$ (101,736)
Effect on postretirement benefit obligations	1,643,917	(1,382,623)

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 2012 through 2020:

2012	\$ 823,051
2013	825,617
2014	849,580
2015	857,586
2016	881,377
Years 2017–2020	4,900,058

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 has no plan assets as of May 31, 2011. Benefit payments for each year represent claims paid for medical expenses, and the University anticipates the 2011 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 Retirements 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 should be 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 accompanying statements of financial position is summarized as follows:

	2011	2010
Balance as of June 1	\$ 1,397,393	\$ 1,336,560
Accretion	<u>52,437</u>	<u>60,833</u>
Balance as of May 31	<u>\$ 1,449,830</u>	<u>\$ 1,397,393</u>

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 May 31, 2011 and 2010, the following allocation of expenses was included in the accompanying statements of activities:

	2011			
	Operation and Maintenance	Depreciation, Amortization, and ARO Expense	Interest Expense	Total
Instruction	\$ 2,739,107	\$ 2,088,205	\$ 42,848	\$ 4,870,160
Public service	191,778	145,624		337,402
Academic support	841,868	669,235	236,593	1,747,696
Student services	425,469	321,607	75,373	822,449
Institutional support	631,274	362,051	46,782	1,040,107
Auxiliary enterprises	<u>4,749,059</u>	<u>3,676,379</u>	<u>1,658,412</u>	<u>10,083,850</u>
	<u>\$9,578,555</u>	<u>\$7,263,101</u>	<u>\$2,060,008</u>	<u>\$18,901,664</u>

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 \$18,000 and interest expense of approximately \$334,000 for the year ended May 31, 2011.

	2010			
	Operation and Maintenance	Depreciation, Amortization, and ARO Expense	Interest Expense	Total
Instruction	\$ 2,153,610	\$ 1,979,838	\$ 47,900	\$ 4,181,348
Public service	150,785	138,046		288,831
Academic support	661,915	635,892	260,250	1,558,057
Student services	334,523	304,935	77,709	717,167
Institutional support	496,336	337,044	48,067	881,447
Auxiliary enterprises	<u>3,733,925</u>	<u>3,488,443</u>	<u>1,754,003</u>	<u>8,976,371</u>
	<u>\$7,531,094</u>	<u>\$6,884,198</u>	<u>\$2,187,929</u>	<u>\$16,603,221</u>

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 \$18,000 and interest expense of approximately \$345,000 for the year ended May 31, 2010.

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. Available for sale 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 — 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.

On May 31, 2011 the University had transfers out of Level 1 and into Level 2 of \$19,331,465 related to an investment in a common stock fund. This transfer represented a change in the observable inputs used to measure the fair value of the investment, as the common stock fund which previously had a quoted price in an active market was no longer available as of May 31, 2011. The asset continued to have significant underlying inputs based on observable data, thus was represented as Level 2. Concurrent with this transfer, the University reclassified the investment from common stock domestic equity to limited partnership in the fair value table below. This reclassification is also reflected on the statement of financial position.

There were no transfers between Levels during the year ended May 31, 2010.

The following tables represent the University's assets and liabilities measured at fair value on a recurring basis as of May 31, 2011 and 2010.

In accordance with the update to ASC 820, the tables below include the major categorization for debt and equity securities on the basis of the nature and risk of the investments at May 31, 2011 and 2010.

	Fair Value Measurements at May 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 21,078,712	\$ -	\$ -	\$ 21,078,712
Money market accounts, commercial paper, and certificates of deposits	15,333,605			15,333,605
Mutual funds:				
Domestic equity	31,749,598			31,749,598
International equity	12,285,909			12,285,909
Fixed income	21,016,310			21,016,310
Common stocks:				
Domestic equity	574,988			574,988
International equity	6,845,076			6,845,076
Government bonds		1,292,673		1,292,673
Private equity funds (a)			6,557,814	6,557,814
Limited partnerships (b)		19,331,465	23,438,871	42,770,336
Funds held in trust	<u>6,756,765</u>	<u>2,177,213</u>	<u>617,246</u>	<u>9,551,224</u>
Total	<u>\$ 115,640,963</u>	<u>\$ 22,801,351</u>	<u>\$ 30,613,931</u>	<u>\$ 169,056,245</u>
Liabilities — interest rate swaps	\$ -	\$ 6,152,635	\$ -	\$ 6,152,635
Total	<u>\$ -</u>	<u>\$ 6,152,635</u>	<u>\$ -</u>	<u>\$ 6,152,635</u>

	Fair Value Measurements at May 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 19,724,073	\$ -	\$ -	\$ 19,724,073
Money market accounts, commercial paper, certificates of deposits, and common collective trust funds	16,395,327	4,300,000		20,695,327
Mutual funds:				
Domestic equity	23,074,509			23,074,509
International equity	9,193,099			9,193,099
Fixed income	19,394,848			19,394,848
Common stocks:				
Domestic equity	3,325,845			3,325,845
International equity	23,555,011			23,555,011
Government bonds		1,209,657		1,209,657
Private equity funds (a)			2,634,170	2,634,170
Limited partnerships (b)			20,748,131	20,748,131
Funds held in trust	<u>5,410,393</u>	<u>2,590,515</u>	<u>617,246</u>	<u>8,618,154</u>
Total	<u>\$ 120,073,105</u>	<u>\$ 8,100,172</u>	<u>\$ 23,999,547</u>	<u>\$ 152,172,824</u>
Liabilities — interest rate swaps	\$ -	\$ 5,910,643	\$ -	\$ 5,910,643
Total	<u>\$ -</u>	<u>\$ 5,910,643</u>	<u>\$ -</u>	<u>\$ 5,910,643</u>

(a) 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 classified as Level 3 assets have redemption lock-up periods that range from 2.5 years to 12 years, at which time the investments close. Level 3 assets in this

category are invested in side pockets, which are less liquid and are generally restricted from redemption. Unfunded commitments as of May 31, 2011 are \$6,814,851.

- (b) Limited partnership interests are generally master fund arrangements which invest in a number of long/short equity funds focused on long term capital appreciation with moderate risk. These partnership interests have no current redemption lock-up periods, however do have redemption notice periods ranging from quarterly to annually. The University has no unfunded commitments as of May 31, 2011.

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.

	Private Equity Funds	Limited Partnerships	Funds Held in Trust	Total Level 3 Fair Value Measurements
Fair value at June 1, 2010	\$ 2,634,170	\$ 20,748,131	\$ 617,246	\$ 23,999,547
Total realized and unrealized gains included in change in net assets	1,153,989	2,690,740		3,844,729
Purchases, issuances, and settlements — net	<u>2,769,655</u>	<u> </u>	<u> </u>	<u>2,769,655</u>
Fair value at May 31, 2011	<u>\$ 6,557,814</u>	<u>\$ 23,438,871</u>	<u>\$ 617,246</u>	<u>\$ 30,613,931</u>
Changes in unrealized gains or losses included in change in net assets related to financial instruments still held at May 31, 2011	<u>\$ 1,014,119</u>	<u>\$ 2,690,740</u>	<u>\$ -</u>	<u>\$ 3,704,859</u>
	Private Equity Funds	Limited Partnerships	Funds Held in Trust	Total Level 3 Fair Value Measurements
Fair value at June 1, 2009	\$ 1,148,196	\$ 11,089,519	\$ 617,246	\$ 12,854,961
Total realized and unrealized gains (losses) included in change in net assets	(205,614)	1,138,612		932,998
Purchases, issuances, and settlements — net	<u>1,691,588</u>	<u>8,520,000</u>	<u> </u>	<u>10,211,588</u>
Fair value at May 31, 2010	<u>\$ 2,634,170</u>	<u>\$ 20,748,131</u>	<u>\$ 617,246</u>	<u>\$ 23,999,547</u>
Changes in unrealized gains or losses included in change in net assets related to financial instruments still held at May 31, 2010	<u>\$ (228,896)</u>	<u>\$ 1,138,612</u>	<u>\$ -</u>	<u>\$ 909,716</u>

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 the net asset value per share as of May 31, 2011. No investments held as of May 31, 2010 estimated fair value using a net asset per share methodology.

	May 31, 2011		
	Fair Value	Redemption Frequency	Redemption Notice Period
Investment type:			
Limited Partnership	\$ 19,331,465	Quarterly	95 Days

12. SUBSEQUENT EVENTS

Subsequent events related to the financial statements have been evaluated through October 24, 2011, which is 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.

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