University of Mount Union

Accountants' Report and Financial Statements

June 30, 2012 and 2011

BKD LLP
CPAs & Advisors

University of Mount Union
June 30, 2012 and 2011

Contents

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CPAs & Advisors

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Independent Accountants' Report

Board of Trustees
University of Mount Union
Alliance, Ohio

We have audited the accompanying statements of financial position of University of Mount Union (University) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of University of Mount Union as of June 30, 2012 and 2011, 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.

BKD, LLP

October 15, 2012

University of Mount Union

Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 10,114,474	$ 7,024,242
Accounts receivable, net of allowance; 2012 - $352,134, 2011 - $364,143	1,462,959	1,795,721
Contributions receivable, net of allowance; 2012 - $325,000, 2011 - $500,000	4,164,841	6,652,167
Inventory	210,320	250,667
Loans receivable	3,463,485	3,602,593
Investments	108,568,041	110,653,577
Beneficial interest in perpetual trusts and charitable remainder trusts	11,840,048	11,590,690
Annuity and life income funds held in trust	8,303,779	9,680,469
Property and equipment, net	130,786,190	130,753,665
Other assets	662,594	611,835
Total assets	$ 279,576,731	$ 282,615,626
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,886,035	$ 1,811,579
Accrued expenses	4,159,706	3,975,216
Annuities and trusts payable	2,221,076	2,718,827
Deposits and other	925,157	1,121,179
Advances from government for student loans	3,060,192	3,023,415
Debt	35,652,378	37,341,806
Total liabilities	47,904,544	49,992,022
Net Assets		
Unrestricted	91,106,285	88,704,536
Temporarily restricted	74,257,837	78,890,121
Permanently restricted	66,308,065	65,028,947
Total net assets	231,672,187	232,623,604
Total liabilities and net assets	$ 279,576,731	$ 282,615,626

University of Mount Union

Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Income and Other Support				
Educational and general				
Student tuition and fees	$ 53,821,941	$ —	$ —	$ 53,821,941
Less financial aid	(23,061,302)	—	—	(23,061,302)
Net student tuition and fees	30,760,639	—	—	30,760,639
Gift and private grants	2,723,509	4,543,012	803,660	8,070,181
Investment return designated for operations	4,908,061	—	—	4,908,061
Change in value of split-interest agreements	—	(146,051)	475,458	329,407
Other income	547,774	—	—	547,774
Total educational and general revenue	38,939,983	4,396,961	1,279,118	44,616,062
Auxiliary enterprises	12,965,482	—	—	12,965,482
Net assets released from restrictions	2,252,355	(2,252,355)	—	0
Total revenue, income and other support	54,157,820	2,144,606	1,279,118	57,581,544
Expenses				
Educational and general				
Instruction	14,902,975	—	—	14,902,975
Academic support	2,896,571	—	—	2,896,571
Operation and maintenance of plant	6,008,303	—	—	6,008,303
Student services	7,117,424	—	—	7,117,424
Institutional support	8,359,125	—	—	8,359,125
Depreciation	3,618,364	—	—	3,618,364
Total educational and general expenses	42,902,762	—	—	42,902,762
Auxiliary enterprises				
Debt service	1,841,371	—	—	1,841,371
Operations	5,675,423	—	—	5,675,423
Depreciation	758,673	—	—	758,673
	8,275,467	—	—	8,275,467
Total expenses	51,178,229	—	—	51,178,229
Change in Net Assets Before Investment Return Less Amounts Designated for Operations and Other Items	2,979,591	2,144,606	1,279,118	6,403,315
Investment return less amounts designated for operations	(491,699)	(6,776,890)	—	(7,268,589)
Change in value of interest rate swap	(86,143)	—	—	(86,143)
Accumulated depreciation valuation adjustment	—	—	—	0
Change in Net Assets	2,401,749	(4,632,284)	1,279,118	(951,417)
Net Assets, Beginning of Year	88,704,536	78,890,121	65,028,947	232,623,604
Net Assets, End of Year	$ 91,106,285	$ 74,257,837	$ 66,308,065	$ 231,672,187

See Notes to Financial Statements

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 52,577,397	$ —	$ —	$ 52,577,397
(22,197,852)	—	—	(22,197,852)
30,379,545	—	—	30,379,545
2,756,931	8,697,996	4,518,193	15,973,120
5,045,114	—	—	5,045,114
—	631,651	1,908,380	2,540,031
266,388	—	—	266,388
38,447,978	9,329,647	6,426,573	54,204,198
12,823,667	—	—	12,823,667
3,700,476	(3,700,476)	—	0
54,972,121	5,629,171	6,426,573	67,027,865
14,345,875	—	—	14,345,875
2,898,587	—	—	2,898,587
6,664,801	—	—	6,664,801
6,902,579	—	—	6,902,579
8,804,738	—	—	8,804,738
3,579,796	—	—	3,579,796
43,196,376	—	—	43,196,376
1,639,618	—	—	1,639,618
5,593,906	—	—	5,593,906
740,246	—	—	740,246
7,973,770	—	—	7,973,770
51,170,146	—	—	51,170,146
3,801,975	5,629,171	6,426,573	15,857,719
296,579	11,600,580	—	11,897,159
—	—	—	0
1,487,720	—	—	1,487,720
5,586,274	17,229,751	6,426,573	29,242,598
83,118,262	61,660,370	58,602,374	203,381,006
$ 88,704,536	$ 78,890,121	$ 65,028,947	$ 232,623,604

University of Mount Union

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	$ (951,417)	$ 29,242,598
Items not requiring (providing) operating activities cash flows		
Realized and unrealized (gains) losses on investments	4,476,604	(14,852,678)
(Gain) loss on sale of property and equipment	(16,216)	337,924
Depreciation	4,377,037	4,320,042
Accumulated depreciation valuation adjustment	—	(1,487,720)
Amortization of bond premium	(15,926)	(15,980)
Change in allowance for uncollectible accounts and contributions receivable	(187,009)	280,600
Contributions restricted for long-term investment	(803,660)	(4,518,193)
Contributions received restricted for acquisition of long-lived assets	(2,292,103)	(6,484,605)
Changes in		
Accounts, loans and contributions receivable	3,146,205	(2,314,262)
Inventory	40,347	(4,683)
Other assets	(50,759)	(298,197)
Accounts payable and accrued expenses	(19,983)	(603,946)
Annuities and trusts payable	(497,751)	142,889
Annuity and life income funds held in trust and beneficial interests in perpetual trusts and charitable remainder trusts	1,127,332	(2,965,801)
Deposits and other	(196,022)	32,368
Advances from government for student loans	36,777	42,832
Net cash provided by operating activities	8,173,456	853,188
Investing Activities		
Purchase of property and equipment	(4,192,732)	(11,061,486)
Purchase of investments	(58,296,751)	(61,570,851)
Proceeds from disposal of property and equipment	78,315	12,000
Proceeds from sales of investments	55,905,683	49,495,796
Net cash used in investing activities	(6,505,485)	(23,124,541)
Financing Activities		
Payments on bonds and notes payable	(5,673,502)	(1,518,525)
Proceeds from issuance of debt	4,000,000	11,400,000
Contributions restricted for long-term investment	803,660	4,518,193
Contributions received restricted for acquisition of long-lived assets	2,292,103	6,484,605
Net cash provided by financing activities	1,422,261	20,884,273
Increase (Decrease) in Cash and Cash Equivalents	3,090,232	(1,387,080)
Cash and Cash Equivalents, Beginning of Year	7,024,242	8,411,322
Cash and Cash Equivalents, End of Year	$ 10,114,474	$ 7,024,242
Supplemental Cash Flows Information		
Fixed assets in accounts payable	$ 278,929	$ 285,994
Cash paid for interest (net of amount capitalized)	1,735,556	1,368,879

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

Nature of Operations

University of Mount Union (University) is a private tax-exempt, nonprofit educational institution located in Alliance, Ohio. The University is affiliated with The United Methodist Church and is an institution of higher education that offers undergraduate and graduate programs designed to meet the needs of the student body. The University's primary source of revenue is from tuition and auxiliary services from students.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents consisted primarily of repurchase agreements.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. At December 31, 2012, the Organization's cash accounts exceeded federally insured limits by approximately $11,000,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Cash and cash equivalents representing assets of endowment funds are classified as investments in the accompanying financial statements.

Investments and Investment Return

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

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

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

Accounts and Loans Receivable

Accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Accounts that are unpaid after the due date bear interest at 1% per month. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

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

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

	2012	2011
Total interest expense incurred on borrowings for project	$ 42,668	$ 472,189
Interest income from investment of proceeds of borrowings for project	(23)	(275,005)
Net interest cost capitalized	$ 42,645	$ 197,184

	2012	2011
Interest capitalized	$ 42,645	$ 197,184
Interest charged to expense	1,704,396	1,606,580
Total interest incurred	$ 1,747,041	$ 1,803,764

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the University has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the University in perpetuity.

Contributions

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

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

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

Inventory Pricing

Inventories consist of books and supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Government Grants

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

Debt Premium and Unamortized Financing Costs

Financing costs and any associated premium related to the University's long-term debt is amortized over the term of the related debt.

Income Taxes

The University is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income. The University files tax returns in the U.S. Federal jurisdiction. With few exceptions, the University is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the educational program, institutional support and fundraising categories based on time and effort.

Self Insurance

The University has elected to self-insure certain costs related to employee health insurance. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to approximately $2,614,500.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2012		2011	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents	$ 10,166,472	$ 10,166,472	$ 14,158,663	$ 14,158,663
U.S. Treasury securities and government agency bonds	2,681,238	2,848,691	3,034,634	3,172,114
Corporate debt securities	13,081,575	13,462,771	11,057,505	11,286,998
Mortgage-backed securities, GSEs	1,624,181	1,680,526	2,017,984	2,079,713
Municipal bonds	465,537	465,766	—	—

	2012 Cost	2012 Fair Value	2011 Cost	2011 Fair Value
Equity funds				
Domestic Equity Mutual Funds	$ 14,594,643	$ 13,773,110	$ 13,378,839	$ 14,724,989
Fixed Income Mutual Funds	9,157,490	9,573,996	8,316,374	8,688,855
International and Emerging Market Mutual Funds	8,138,022	8,349,807	9,533,651	9,411,611
Common stocks				
Industrials	3,919,275	4,391,364	3,953,186	4,909,918
Consumer Discretionary	2,498,686	3,431,150	2,166,195	3,171,953
Consumer Staples	1,668,496	1,994,357	1,993,809	2,207,086
Energy	3,431,832	3,291,256	3,211,527	4,140,177
Financial	5,394,758	6,185,829	4,906,532	5,756,514
Materials	2,093,663	2,258,906	1,418,757	1,636,053
Information Technology	7,122,073	8,689,878	5,510,978	6,980,285
Healthcare	4,114,796	4,386,545	4,176,573	4,333,654
Other	1,505,871	1,664,741	1,514,847	1,763,829
Alternative investments				
Limited partnerships	4,676,091	5,880,430	5,060,361	6,687,655
Hedge funds	5,750,000	6,072,446	5,000,000	5,543,510
	$ 102,084,697	$ 108,568,041	$ 100,410,415	$ 110,653,577

Investments were held for the following purposes at June 30:

	2012 Cost	2012 Fair Value	2011 Cost	2011 Fair Value
Endowment	$ 90,122,900	$ 96,583,841	$ 88,424,491	$ 98,665,758
Other	11,961,797	11,984,200	11,985,924	11,987,819
	$ 102,084,697	$ 108,568,041	$ 100,410,415	$ 110,653,577

Alternative Investments

The fair value of alternative investments (hedge funds) has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 6,072,446	None	Quarterly	65 – 90 days
Limited partnerships (B)	5,880,430	None	Monthly	7 days

	June 30, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 5,543,510	None	Quarterly	65 – 90 days
Limited partnerships (B)	6,687,655	None	Monthly	7 days

(A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in various private investment funds that employ various long/short, macro and absolute return strategies.

(B) This category includes an investment in a limited partnership that primarily invests and takes long positions in U.S. and foreign common stocks. Management of the fund has the ability to shift investments and strategies.

Total investment return is comprised of the following:

	2012	2011
Interest and dividend income	$ 2,116,076	$ 2,089,595
Net realized gains (losses) on investments reported at fair value	(716,786)	1,162,928
Net unrealized gains (losses) on investments reported at fair value	(3,759,818)	13,689,750
	$ (2,360,528)	$ 16,942,273

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

	2012	2011
Operating income	$ 4,908,061	$ 5,045,114
Other nonoperating income	(7,268,589)	11,897,159
	$ (2,360,528)	$ 16,942,273

Note 3: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2012	2011
Due within one year	$ 1,343,857	$ 3,814,203
Due in one to five years	1,877,478	1,196,208
Due in more than five years	112,900	1,172,305
	3,334,235	6,182,716
Less		
Allowance for uncollectible contributions	(325,000)	(500,000)
Unamortized discount (2.00% - 8.00%)	(318,690)	(441,359)
	$ 2,690,545	$ 5,241,357

The University is also the beneficiary of a trust administered by a nonrelated party. The assets of this trust are included in contributions receivable on the statements of financial position of the University. Contributions receivable from this charitable trust totaled $1,474,296 and $1,410,810 as of June 30, 2012 and 2011, respectively.

Note 4: Beneficial Interest in Perpetual Trusts and Remainder Trusts

The University is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $4,349,996 and $4,429,309, which represents the fair value of the trust assets at June 30, 2012 and 2011, respectively.

The University is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive a remainderment of trust assets at a future date. The present value of the expected future cash flows is $7,490,052 and $7,161,381 at June 30, 2012 and 2011, respectively. The discount rates used to calculate the present value were 4% to 8%.

Note 5: Property and Equipment

Property and equipment at June 30 consisted of the following:

	2012	2011
Land and land improvements	$ 18,850,012	$ 17,466,120
Buildings	155,444,958	144,956,092
Equipment and vehicles	17,450,765	16,723,196
Construction in progress	479,040	8,740,906
	192,224,775	187,886,314
Less accumulated depreciation and amortization	(61,438,585)	(57,132,649)
	$ 130,786,190	$ 130,753,665

Note 6: Line of Credit

The University has a $1,000,000 revolving bank line of credit with no expiration date. At June 30, 2012 and 2011, there were no borrowings against this line. Interest varies with LIBOR (London Interbank Offering Rate) and is payable monthly.

Note 7: Debt

	2012	2011
1998 Series Ohio Higher Educational Facility Revenue Bonds at 3.75% to 5.00%, which consist of $3,635,000 Serial Bonds due October 1, 2002 – 2013 and $4,365,000 Term Bonds due October 1, 2018 and 2023. Refinanced during 2012	$ —	$ 4,805,000
2006 Series Ohio Higher Educational Facility Revenue Bonds at 4.50% to 5.25%, which consist of $4,145,000 Serial Bonds due October 1, 2007 – 2016 and $11,865,000 Term Bonds due October 1, 2021, 2026 and 2031. The bonds were issued at a premium of $398,159	14,180,000	14,580,000
2011 Series Ohio Higher Educational Facility Revenue Bonds at 2.0% to 5.125%, which consist of $2,960,000 of Serial Bonds due October 1, 2011-2020 and $8,440,000 Term Bonds due October 1, 2025 and 2035.	11,400,000	11,400,000
Note payable, unsecured, interest rate of 4.86%, payable in monthly installments of $47,412 with a final balloon payment of $3,802,644 due in September 2016	5,200,162	5,501,881

	2012	2011
Note payable, unsecured, interest rate of 5.00%, payable in annual installments of $103,604 beginning on June 1, 2010 with final payment due June 2021	$ 669,613	$ 736,396
Note payable, unsecured, interest rate of 1.40% plus the 1 month LIBOR rate, payable in monthly installments of $33,333 beginning on April 1, 2012 with final payment due March 2022	3,900,000	—
	35,349,775	37,023,277
Add: Unamortized premium	302,603	318,529
	$ 35,652,378	$ 37,341,806

In connection with the issuance of the 1998, 2006 and 2011 series of tax-exempt bonds by the state for the benefit of the University, the University has leased to the state, and the state has subleased to the University, the related buildings, land and equipment. The University does not receive rental payments under its leases to the state and is required only to make rental payments to the state at times and in amounts sufficient to pay principal and interest on the outstanding tax-exempt bonds under its leases from the state. The lease agreements expire upon repayment of all indebtedness secured by the leases.

Aggregate annual maturities of debt at June 30, 2012, are:

2013	$ 1,503,779
2014	1,548,347
2015	1,593,899
2016	1,649,942
2017	5,170,283
Thereafter	23,883,525
	$ 35,349,775

Note 8: Annuities and Trusts Payable

The University has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at June 30, 2012 and 2011, of $535,539 and $548,929, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 4% to 8%.

The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. The portion of the trust attributable to the future interest of the University is recorded in the statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the University's statements of financial position. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates of 4% - 8% and applicable mortality tables.

Note 9: Derivative Financial Instruments — Interest Rate Swap Agreements

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for its variable rate debt. On February 17, 2012, the University entered into a 10-year interest rate swap agreement with the intent of reducing the impact of changes in interest rates on its Huntington National Bank variable rate debt. The agreement provides for the University to receive interest from the counterparty at the USD-SIFMA Municipal Swap Index rate and to pay interest to the counterparty at a fixed rate of 2.95% on a notional amount of $3,900,000 at June 30, 2012. The difference between the rates is settled monthly and is included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in other items.

The table below presents certain information regarding the University's interest rate swap agreements.

	2012
Fair value of liability for interest rate swap agreements	$ 86,143
Statement of financial position location of fair value amount	Accrued expenses
Loss recognized in change in net assets	$ 86,143
Location of loss recognized in change in net assets	Change in value of interest rate swap agreement

Note 10: Internal Borrowings

During 2010, borrowings within the University were made from the endowment fund for capital projects. The borrowings from the endowment fund totaled $12,119,829 and $13,364,029 at June 30, 2012 and 2011, respectively. Approximately $4,000,000 of the internal loan is for renovations to the Engineering and Business Building. This loan is being amortized over 25 years, bears interest monthly at 4.5% and will be repaid from unrestricted operations. The remainder of the loan is for the Wellness Center. This loan bears interest monthly at 5% and will be repaid by specific contributions.

Note 11: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2012	2011
Unitrust and gift annuities	$ 4,262,269	$ 4,433,350
Funds restricted for specific purposes	786,675	763,091
Unexpended property and equipment funds	15,159,621	12,867,518
Accumulated earnings on endowment	54,049,272	60,826,162
	$ 74,257,837	$ 78,890,121

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2012	2011
Investment in perpetuity, the income of which is expendable to support scholarships and operations	$ 52,688,905	$ 50,951,287
Annuity, life income and charitable remainder and perpetual trusts	13,619,160	14,077,660
	$ 66,308,065	$ 65,028,947

Net Assets Released from Restrictions

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

	2012	2011
Purpose restrictions accomplished		
Educational program expenses	$ 194,610	$ 115,972
Property and equipment acquired and placed into service	1,161,005	1,643,483
Time restrictions expired, passage of time	896,740	1,941,021
	$ 2,252,355	$ 3,700,476

Note 12: Endowment

The University's endowment consists of approximately 500 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

The endowment assets are comprised of investments, beneficial interests, assets held in trust and the internal loan. The composition of net assets by type of endowment fund at June 30, 2012 and 2011, was:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (91,684)	$ 54,049,272	$ 66,308,065	$ 120,265,653

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (62,250)	$ 60,826,162	$ 65,028,947	$ 125,792,859

Changes in endowment net assets for the years ended June 30, 2012 and 2011, were:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (62,250)	$ 60,826,162	$ 65,028,947	$ 125,792,859
Investment return				
Investment income	2,034,130	—	—	2,034,130
Net appreciation	2,873,931	(6,806,324)	475,458	(3,456,935)
Net transfer for underwater endowments	(29,434)	29,434	—	0
Total investment return	4,878,627	(6,776,890)	475,458	(1,422,805)
Contributions	—	—	803,660	803,660
Appropriation of endowment assets for expenditure	(4,908,061)	—	—	(4,908,061)
Endowment net assets, end of year	$ (91,684)	$ 54,049,272	$ 66,308,065	$ 120,265,653

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (358,829)	$ 49,225,582	$ 58,602,374	$ 107,469,127
Investment return				
Investment income	2,012,203	—	—	2,012,203
Net appreciation	3,032,911	11,897,159	1,908,380	16,838,450
Net transfer for underwater endowments	296,579	(296,579)	—	0
Total investment return	5,341,693	11,600,580	1,908,380	18,850,653

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	$ —	$ —	$ 4,518,193	$ 4,518,193
Appropriation of endowment assets for expenditure	(5,045,114)	—	—	(5,045,114)
Endowment net assets, end of year	$ (62,250)	$ 60,826,162	$ 65,028,947	$ 125,792,859

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2012 and 2011, consisted of:

	2012	2011
Permanently restricted net assets, portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Ohio UPMIFA	$ 66,308,065	$ 65,028,947
Temporarily restricted net assets, portion of perpetual endowment funds subject to a time restriction under Ohio UPMIFA, with purpose restrictions	$ 54,049,272	$ 60,826,162

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or Ohio UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $(91,684) and $(62,250) at June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods. Under the University's policies, endowment assets are invested in a manner that is intended to produce results that shall exceed the Consumer Price Index plus 5% over a five-year moving period without undue exposure to investment risk. The University expects its endowment funds to provide an average rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

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

The University has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which expenditure is planned. In establishing this policy, the University considered the long-term expected return on its endowment and inflationary trends. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 13: Related Party Transactions

The University currently maintains investments and trust asset accounts with institutions that also have representatives serving on the Board of Trustees of the University. Total investments and trust assets held with these institutions amount to approximately $37,900,000 and $47,700,000 as of June 30, 2012 and 2011, respectively. The fees paid to related parties, inclusive of investment, insurance and other fees for services performed by these parties amounted to approximately $199,000 and $361,000 for 2012 and 2011, respectively.

Note 14: Pension and Other Postretirement Benefit Plans

The University maintains a 403(b) defined-contribution plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the University's contributions to the plan. Pension expense was approximately $1,818,000 and $1,806,000 for 2012 and 2011, respectively.

The University has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. The University expects to contribute $152,000 to the plan in 2012.

The University has a noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The University's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the University may determine to be appropriate from time to time. The University expects to contribute $77,000 to the plan in 2012.

The University uses a June 30 measurement date for the plans. Information about the plan's funded status and pension cost follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Change in benefit obligation				
Beginning of year	$ (1,283,564)	$ (1,247,671)	$ (1,197,409)	$ (1,004,764)
Service cost	(64,623)	(70,188)	(34,251)	(33,928)
Interest cost	(61,172)	(60,715)	(57,355)	(48,425)
Actuarial gain (loss)	1,468	1,601	28,615	(147,092)
Participant contributions	—	—	(65,526)	(24,337)
Benefit payments	119,168	93,409	102,826	61,137
End of year	(1,288,723)	(1,283,564)	(1,223,100)	(1,197,409)
Fair value of plan assets	—	—	—	—
Funded status at end of year	$ (1,288,723)	$ (1,283,564)	$ (1,223,100)	$ (1,197,409)

Liabilities recognized in the statements of financial position:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Accrued benefit liability	$ (1,288,723)	$ (1,283,564)	$ (1,223,100)	$ (1,197,409)

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Net loss	$ 235,617	$ 244,879	$ 462,577	$ 517,462
Prior service cost	24,373	27,855	—	—
	$ 259,990	$ 272,734	$ 462,577	$ 517,462

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2012	2011
Projected benefit obligation	$ 1,288,723	$ 1,283,564
Accumulated benefit obligation	$ 1,223,100	$ 1,197,409
Fair value of plan assets	$ 0	$ 0

Other significant balances and costs as of June 30 are:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Benefit costs	$ 137,071	$ 143,282	$ 117,876	$ 102,068
Employer contributions	119,168	93,409	37,300	36,800
Benefits paid	119,168	93,409	102,826	61,137

Components of net periodic benefit cost are:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	$ 64,623	$ 70,188	$ 34,251	$ 33,928
Interest cost	61,172	60,715	57,355	48,425
Amortization of prior service cost	3,482	3,482	—	—
Recognized net actuarial loss	7,794	8,897	26,270	19,715
	$ 137,071	$ 143,282	$ 117,876	$ 102,068

The estimated net loss and prior service cost obligation for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $7,140 and $3,482, respectively. The estimated net loss for the other defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $22,475.

Weighted-average assumptions used to determine benefit obligations:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Discount rate	4.00%	5.00%	4.00%	5.00%
Rate of compensation increase	2.00	3.00	N/A	N/A
Health care cost trend	N/A	N/A	9.00	9.50

Weighted-average assumptions used to determine benefit costs:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Discount rate	5.00%	5.00%	5.00%	5.00%
Rate of compensation increase	3.00	3.00	N/A	N/A
Health care cost rate	N/A	N/A	9.50	9.50

For measurement purposes, a 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011. The rate was assumed to decrease gradually to 3.50% by the year 2023 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The University has determined that this benefit has no effect on the measurement of plan benefit obligations and periodic benefit costs.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2012:

	Pension Benefits	Other Benefits
2013	$ 152,000	$ 77,000
2014	166,000	76,000
2015	138,000	76,000
2016	107,000	73,000
2017	71,000	70,000
2018 – 2021	590,000	412,000

Note 15: Functional Expenses

The University's expenses on a functional basis are as follows:

		2012		2011
Educational				
Instruction	$	19,321,863	$	18,377,045
Academic support		3,748,216		3,770,977
Student services		9,093,579		8,826,321
Auxiliary enterprises		10,503,630		9,944,759
Total educational		42,667,288		40,919,102
Institutional support		7,113,616		7,408,964
Fundraising		1,397,325		1,354,360
	$	51,178,229	$	49,682,426

Note 16: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements,* defines fair value 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The University has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments and Annuity and Life Income Funds Held in Trust

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, mutual funds, common stocks and certain U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For assets other than hedge funds, the inputs used by pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmarks yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids and offers and refinance data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 assets include corporate debt securities, mortgage-backed securities, municipal bonds, certain U.S. Treasury securities and government agency bonds. For alternative investments (which includes hedge funds and an equity fund organized as a limited partnership) that have sufficient activity or liquidity within the fund, fair value is determined using the net asset value provided by the fund and are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include a United Methodist Development Fund (UMDF) note. The UMDF note is valued at cost, which approximates fair value. The fair value for the limited partnership was determined using the net asset value of the fund provided by the fund manager.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Beneficial Interest in Charitable Remainder Trusts

Fair value is estimated at the present value of the future assets expected to be received from the trusts upon dissolution. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Interest Rate Swap Agreements

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

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011:

	2012			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 10,166,472	$ 10,166,472	$ —	$ —

	2012			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and government agency bonds	$ 2,848,691	$ 754,667	$ 2,094,024	$ —
Corporate debt securities	13,462,771	—	13,047,053	415,718
Mortgage-backed securities, GSEs	1,680,526	—	1,680,526	—
Municipal bonds	465,766	—	465,766	—
Mutual funds				
Equity	13,773,110	13,773,110	—	—
Fixed income	9,573,996	9,573,996	—	—
International	8,349,807	8,349,807	—	—
Common stocks				
Industrials	4,391,364	4,391,364	—	—
Consumer discretionary	3,431,150	3,431,150	—	—
Consumer staples	1,994,357	1,994,357	—	—
Energy	3,291,256	3,291,256	—	—
Financial	6,185,829	6,185,829	—	—
Materials	2,258,906	2,258,906	—	—
Information technology	8,689,878	8,689,878	—	—
Health care	4,386,545	4,386,545	—	—
Other	1,664,741	1,664,741	—	—
Alternative investments				
Limited partnerships	5,880,430	—	5,880,430	—
Hedge funds	6,072,446	—	6,072,446	—
Annuity and life income funds held in trust				
Corporate debt securities	1,382,397	—	1,382,397	—
Money market funds	287,986	287,986	—	—
Common stocks	831,950	831,950	—	—

		2012		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds				
Value, growth and blended fixed income	$ 5,801,446	$ 5,801,446	$ —	$ —
Beneficial interest in perpetual trusts	4,349,996	—	—	4,349,996
Beneficial interest in charitable remainder trusts	7,490,052	—	—	7,490,052
Liabilities				
Interest Rate Swap Agreements	(86,143)	—	(86,143)	—

		2011		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 14,030,927	$ 14,030,927	$ —	$ —
U.S. Treasury securities and government agency bonds	3,172,114	548,620	2,623,494	—
Corporate debt securities	11,286,998	—	10,871,280	415,718
Mortgage-backed securities, GSEs	2,079,713	—	2,079,713	—
Mutual funds				
Equity	14,724,989	14,724,989	—	—
Fixed income	8,688,855	8,688,855	—	—
International	9,411,611	9,411,611	—	—

	2011			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stocks				
Industrials	$ 4,909,918	$ 4,909,918	$ —	$ —
Consumer discretionary	3,171,953	3,171,953	—	—
Consumer staples	2,207,086	2,207,086	—	—
Energy	4,140,177	4,140,177	—	—
Financial	5,756,514	5,756,514	—	—
Materials	1,636,053	1,636,053	—	—
Information technology	6,980,285	6,980,285	—	—
Health care	4,333,654	4,333,654	—	—
Other	1,763,829	1,763,829	—	—
Alternative investments				
Limited partnerships	6,687,655	—	6,687,655	—
Hedge funds	5,543,510	—	5,543,510	—
Annuity and life income funds held in trust				
Corporate debt securities	2,103,443	—	2,103,443	—
Money market funds	233,900	233,900	—	—
Common stocks	842,924	842,924	—	—
Mutual funds				
Value, growth and blended fixed income	6,500,202	6,500,202	—	—
Beneficial interest in perpetual trusts	4,429,309	—	—	4,429,309
Beneficial interest in charitable remainder trusts	7,161,381	—	—	7,161,381

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

	Perpetual Trusts	Charitable Remainder Trusts	UMDF Note
Balance, July 1, 2010	$ 3,948,291	$ 6,165,176	$
Total realized and unrealized gains and losses included in change in net assets	481,018	996,205	—
Balance, June 30, 2011	4,429,309	7,161,381	415,718
Total realized and unrealized gains and losses included in change in net assets	(79,313)	328,671	—
Balance, June 30, 2012	$ 4,349,996	$ 7,490,052	$ 415,718
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date			
June 30, 2012	$ (79,313)	$ 328,671	$ 0
June 30, 2011	$ 481,018	$ 996,205	$ 0

The unrealized gains and losses for the perpetual trusts and charitable remainder trusts are included in revenue, gains and other support.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value. Further evaluation of the fair value of these financial assets and liabilities utilizing the methods described below did not result in a significant difference from the carrying amount. Thus, the carrying amount is a reasonable estimate of the fair value for all financial assets and liabilities.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated by discounting the expected future cash flows using the risk-free rate of return at the time of contribution.

Loans Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar loans would be written for the same remaining maturities.

Debt

Fair value is estimated based on the borrowing rates currently available to the University for debt with similar terms and maturities.

Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on an actuarial evaluation of the estimated annuity or other payment under such obligations.

Deposits and Other and Advances From Government for Student Loans

The carrying value approximates fair value.

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 45% and 53% of contributions receivable were from two donors at June 30, 2012 and 2011, respectively.

Approximately 60% and 51% of contribution revenue was from one donor in 2012 and 2011, respectively.

Investments

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

Current Economic Conditions

The recent economic decline continues to present higher educational institutions with difficult circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and other assets, declines in contributions, enrollment revenue, governmental support, grant revenue, etc., constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the University.

Current economic conditions have made it more difficult for many donors to continue to contribute to higher educational institutions. As such, a possible significant decline in contribution revenue, enrollment revenue, governmental support, grant revenue, etc. could have an adverse impact on the University's future operating results.

In addition, given the volatility of recent economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in possible future adjustments in investment values, allowances for receivables and other assets that could, if material in nature, negatively impact the University's ability to meet debt covenants or maintain sufficient liquidity.

Note 18: Subsequent Events

Subsequent to year end, the University executed a real estate purchase agreement to purchase a commercial property adjacent to campus for $1,460,000. The purchase of the property included an assumption of approximately $900,000, representing the principal amount of a commercial mortgage on the premises. The purchase required the formation of two (2) limited liability companies (LLC's), Raiders Corner, LLC, to own the property, and Raider Management, LLC to serve as its managing member. The transaction closed on August 29, 2012.

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