



VILLANOVA
UNIVERSITY
and Subsidiaries

**FINANCIAL
STATEMENTS**
MAY 31, 2011

VILLANOVA UNIVERSITY

FINANCIAL STATEMENTS May 31, 2011

Table of Contents

Report of Independent Auditors	1
Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities for the year ended May 31, 2011	4
Consolidated Statement of Activities for the year ended May 31, 2010	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Financial Statements	8–26



Report of Independent Auditors

To the Board of Trustees
Villanova University

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities, changes in net assets and cash flows present fairly, in all material respects, the financial position of Villanova University and its Subsidiaries (the "University") at May 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 10, 2011

VILLANOVA UNIVERSITY AND SUBSIDIARIES**Consolidated Statements of Financial Position at May 31, 2011 and 2010**

(in thousands)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 144,858	\$ 133,967
Short-term investments	949	913
Accounts receivable, less allowances of \$1,049 in 2011 and \$1,531 in 2010	10,009	10,445
Inventories	1,945	2,097
Other assets	6,643	6,689
Assets whose use is limited	2,092	120
Pledges receivable, net	18,361	21,403
Student loans receivable, net	11,910	11,901
Investments	378,725	306,984
Land, buildings and equipment, net	348,891	347,786
Total assets	<u>\$ 924,383</u>	<u>\$ 842,305</u>
LIABILITIES		
Accounts payable	\$ 9,443	\$ 12,012
Accrued expenses	31,164	29,670
Deposits	4,595	4,846
Deferred revenues	11,070	9,800
Accrued postretirement benefits	14,224	13,785
Refundable government loan funds	7,204	6,810
Long-term debt	201,494	210,344
Accrued pension cost	11,446	15,343
Total liabilities	<u>290,640</u>	<u>302,610</u>
NET ASSETS		
Unrestricted	368,464	309,142
Temporarily restricted	108,639	85,739
Permanently restricted	156,640	144,814
Total net assets	<u>633,743</u>	<u>539,695</u>
Total liabilities and net assets	<u>\$ 924,383</u>	<u>\$ 842,305</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Activities for the Year Ended May 31, 2011

(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2010 Total</u>
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of \$82,821 in student financial aid	\$ 256,654			\$ 256,654	\$ 247,217
Sales and services of auxiliary enterprises, net of \$2,220 in student financial aid	65,062			65,062	63,740
	<u>321,716</u>			<u>321,716</u>	<u>310,957</u>
Private gifts and grants	13,687	\$ 422		14,109	14,719
Government grants	10,142			10,142	9,241
Endowment resources	8,173	6,813		14,986	15,538
Investment income	573			573	1,110
Other sources	16,932	241		17,173	17,165
Net assets released from restrictions	10,068	(10,068)		-	-
Total operating revenues	<u>381,291</u>	<u>(2,592)</u>	<u>\$ -</u>	<u>378,699</u>	<u>368,730</u>
OPERATING EXPENSES					
Salaries and fringe benefits	211,472			211,472	201,037
Supplies and services	44,844			44,844	46,517
Depreciation	17,806			17,806	16,326
Cost of goods sold	13,580			13,580	13,200
Interest on indebtedness	8,567			8,567	8,892
Travel and special events	12,556			12,556	9,511
Utilities	8,871			8,871	9,052
Other	31,920			31,920	31,156
Total operating expenses	<u>349,616</u>	<u>-</u>	<u>-</u>	<u>349,616</u>	<u>335,691</u>
Change in net assets from operating activities	<u>31,675</u>	<u>(2,592)</u>	<u>-</u>	<u>29,083</u>	<u>33,039</u>
NON-OPERATING					
Investment Income					
Interest and dividends	918	737	184	1,839	952
Realized (losses)/gains	6,767	6,726	9	13,502	6,977
Other					
Rental property revenue	2,158			2,158	2,111
Rental property expenses	(1,600)			(1,600)	(1,314)
Change in fair value of investments	23,043	24,842	148	48,033	22,633
Adjustment to asset retirement obligations	-			-	(53)
Endowment resources	(8,173)	(6,813)		(14,986)	(15,538)
	<u>23,113</u>	<u>25,492</u>	<u>341</u>	<u>48,946</u>	<u>15,768</u>
Endowment and other gifts	256		11,485	11,741	7,811
Change in net assets from non-operating activities	<u>23,369</u>	<u>25,492</u>	<u>11,826</u>	<u>60,687</u>	<u>23,579</u>
Change in net assets prior to loss on bond refunding	55,044	22,900	11,826	89,770	56,618
Loss on bond refunding	-	-	-	-	(2,289)
Change in net assets before other adjustments	<u>\$ 55,044</u>	<u>\$ 22,900</u>	<u>\$ 11,826</u>	<u>\$ 89,770</u>	<u>\$ 54,329</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Activities for the Year Ended May 31, 2010

(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2009 Total</u>
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of \$77,489 in student financial aid	\$ 247,217			\$ 247,217	\$ 238,553
Sales and services of auxiliary enterprises, net of \$2,271 in student financial aid	63,740			63,740	63,527
	<u>310,957</u>			<u>310,957</u>	<u>302,080</u>
Private gifts and grants	12,445	\$ 2,274		14,719	15,565
Government grants	9,241			9,241	7,630
Endowment resources	8,976	6,562		15,538	14,506
Investment income	1,110	-		1,110	1,793
Other sources	16,697	468		17,165	14,894
Net assets released from restrictions	11,197	(11,197)		-	-
Total operating revenues	<u>370,623</u>	<u>(1,893)</u>	<u>\$ -</u>	<u>368,730</u>	<u>356,468</u>
OPERATING EXPENSES					
Salaries and fringe benefits	201,037			201,037	191,023
Supplies and services	46,517			46,517	43,407
Depreciation	16,326			16,326	14,801
Cost of goods sold	13,200			13,200	13,243
Interest on indebtedness	8,892			8,892	8,690
Travel and special events	9,511			9,511	10,486
Utilities	9,052			9,052	9,112
Other	31,156			31,156	29,001
Total operating expenses	<u>335,691</u>	<u>-</u>	<u>-</u>	<u>335,691</u>	<u>319,763</u>
Change in net assets from operating activities	<u>34,932</u>	<u>(1,893)</u>	<u>-</u>	<u>33,039</u>	<u>36,705</u>
NON-OPERATING					
Investment Income					
Interest and dividends	246	430	276	952	1,192
Realized (losses)/gains	3,578	3,451	(52)	6,977	(24,712)
Other					
Rental property revenue	2,111	-	-	2,111	2,091
Rental property expenses	(1,314)	-	-	(1,314)	(1,581)
Change in fair value of investments	11,262	11,210	161	22,633	(73,198)
Adjustment to asset retirement obligations	(53)	-	-	(53)	243
Endowment resources	(8,976)	(6,562)	-	(15,538)	(14,506)
	<u>6,854</u>	<u>8,529</u>	<u>385</u>	<u>15,768</u>	<u>(110,471)</u>
Endowment and other gifts	-		7,811	7,811	4,305
Change in net assets from non-operating activities	<u>6,854</u>	<u>8,529</u>	<u>8,196</u>	<u>23,579</u>	<u>(106,166)</u>
Change in net assets prior to loss on bond refunding	41,786	6,636	8,196	56,618	(69,461)
Loss on bond refunding	(2,289)	-	-	(2,289)	-
Change in net assets before other adjustments	<u>\$ 39,497</u>	<u>\$ 6,636</u>	<u>\$ 8,196</u>	<u>\$ 54,329</u>	<u>\$ (69,461)</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
Consolidated Statements of Changes in Net Assets
For the Years Ended May 31, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets:		
Change in net assets before other adjustments	\$ 55,044	\$ 39,497
Adjustment for retirement plan obligations	<u>4,278</u>	<u>(6,196)</u>
Increase in unrestricted net assets	<u>59,322</u>	<u>33,301</u>
Temporarily Restricted Net Assets:		
Change in net assets	<u>22,900</u>	<u>6,636</u>
Increase in temporarily restricted net assets	<u>22,900</u>	<u>6,636</u>
Permanently Restricted Net Assets:		
Change in net assets	<u>11,826</u>	<u>8,196</u>
Increase in permanently restricted net assets	<u>11,826</u>	<u>8,196</u>
Increase in net assets	94,048	48,133
Net assets:		
Beginning of Year	<u>539,695</u>	<u>491,562</u>
End of Year	<u><u>\$ 633,743</u></u>	<u><u>\$ 539,695</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended May 31, 2011 and 2010

(in thousands)

	<u>2011</u>	<u>2010</u>
CASH FLOW FROM OPERATING ACTIVITIES		
(Decrease)/Increase in net assets	\$ 94,048	\$ 48,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,806	16,326
Contributions restricted for long-term investment	(13,959)	(14,371)
Realized losses/(gains) on sales of investments	(13,502)	(6,977)
Change in market value of investments	(48,033)	(22,633)
Pension and other postretirement benefit plan adjustments	(4,278)	6,196
Receipt of contributed securities	(4,038)	(2,850)
Amortization of debt (premium)/discount	(516)	4,415
Changes in operating assets and liabilities:		
Accounts receivable	918	(1,069)
Pledges receivable	2,016	8,368
Provision for doubtful accounts	592	(1,104)
Accounts payable and accrued expenses	496	(1,415)
Other changes	2,037	4,267
Net cash provided by operating activities	<u>33,587</u>	<u>37,286</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	137,511	119,106
Purchases of investments	(143,679)	(124,026)
Student loans receivable	(57)	(344)
Purchase of land, buildings and equipment	(20,482)	(27,096)
Short-term investments, net	(36)	5,375
Increase in assets whose use is limited	(1,972)	(2)
Net cash used by investing activities	<u>(28,715)</u>	<u>(26,987)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	13,959	14,371
Repayment of debt principal	(8,334)	(7,842)
Refinancing of debt	-	(2,840)
Government loan funds	394	527
Net cash used in financing activities	<u>6,019</u>	<u>4,216</u>
Net (decrease)/increase in cash and cash equivalents	10,891	14,515
Cash and cash equivalents at beginning of year	<u>133,967</u>	<u>119,452</u>
Cash and cash equivalents at end of year	<u>\$ 144,858</u>	<u>\$ 133,967</u>
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	\$ 1,693	\$ 3,264
Cash paid for interest	9,580	9,731
Tax payments	416	435
Contributed securities	4,038	2,850

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2011

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES:

Nature of Operations

Villanova University and Subsidiaries (the "University") is an independent, coeducational institution offering undergraduate and graduate instruction, located in Radnor Township, Delaware County, Pennsylvania. The campus presently covers approximately 260 acres and comprises 75 buildings. The University also has a Conference Center approximately one-half mile from the campus which encompasses 32 acres. The University has approximately 10,500 students, of whom approximately 6,400 are full-time undergraduates. Refer to Note 16 for a description of the University's subsidiaries.

Significant Accounting Policies and Reporting Practices

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories.

- **Unrestricted Net Assets** – Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, receiving dividends and interest from investing in income-producing assets, and unrestricted gains and losses, less expenses incurred in providing services, raising contributions, and performing administrative functions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.
- **Temporarily Restricted Net Assets** – Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations or by law. Gifts of cash and other non-capital assets are reported as temporarily restricted operating revenue if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Contributions related to the construction or acquisition of fixed assets are also classified as temporarily restricted. When the associated assets are placed-in-service, the assets are released from restriction over the life of the asset as depreciation expense in the consolidated statement of activities.
- **Permanently Restricted Net Assets** – Permanently restricted net assets generally represent the corpus of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the University.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Fair Value

Effective June 1, 2008, the University adopted the provisions of the fair value measurements standard, which defines the term “fair value,” establishes a framework for measuring it within generally accepted accounting principles, and expands disclosure about fair value measurements.

The standard established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1* – Observable inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument; and
- *Level 3* – Unobservable inputs to the valuation methodology in which there is little or no market data and which are significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The University’s investments consist of separate accounts, daily traded mutual funds, split-interest agreements, commingled funds and limited partnership interests.

Investments in domestic equities consist of separate accounts and one limited partnership investment. Securities in the separate accounts are traded daily and are valued based on quoted market prices and categorized as Level 1. The limited partnership interest invests in securities that are traded daily and a small number of investments that do not have a readily determinable market value. Subsequently, the limited partnership interest is categorized as Level 3 in the fair value hierarchy.

Investments in domestic corporate and other bonds consist of a commingled fund and a separate account. Securities which are regularly traded are valued based on quoted market prices in active markets and are categorized as Level 1 in the fair value hierarchy. Bond funds that invest in other collective investment funds are valued based on quoted market prices in less liquid markets and are categorized as Level 2 in the fair value hierarchy.

Investments in foreign equities consist of commingled funds and daily traded mutual funds. Securities held in daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1 in the fair value hierarchy, with no valuation adjustments applied. Commingled funds are valued at NAV and are categorized as Level 2 in the fair value hierarchy.

Investments in inflation hedging and opportunistic strategies consist of daily traded mutual funds, commingled funds, and limited partnership interests. Securities held in daily traded mutual funds are categorized as Level 1. Securities in commingled funds are valued at NAV and categorized as Level 2. Limited partnership interests are valued at NAV and are categorized in accordance with the *Fair Value Measurement* standard. As the University does not have the ability to redeem from the limited partnership at the measurement date or is restricted from redeeming for an uncertain or extended period of time from the measurement date, the investment is classified as a Level 3 in the fair value hierarchy.

Investments in split-interest agreements consist of irrevocable charitable remainder trusts, charitable gift annuities, and pooled income funds where the University serves as trustee. The assets, invested in equity or debt securities, are measured at fair value on a recurring basis at quoted market prices and are thus categorized as Level 1. Liabilities represent the present value of the estimated future distributions to beneficiaries over the terms of the agreements. Investment gains and losses, and gains and losses associated with changes in the estimates of future distributions to beneficiaries, are included in net realized and unrealized gains and losses.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an original maturity date not exceeding 90 days, while short-term investments reflect liquid investments with a maturity date in excess of 90 days, but less than one year.

Investments

The University records investments at fair value. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Accounts Receivable

Accounts Receivable are primarily amounts related to student receivable balances net of an allowance for doubtful accounts, grant receivable balances, and other miscellaneous receivables.

Investment Income

Investment income related to long-term investments is recorded as non-operating income, and the portion of investment income that is utilized in operating revenues under the University's endowment spending formula (see description in Note 3) is shown as a reduction in non-operating income ("Endowment resources"). Investment income related to the endowment is classified as unrestricted or temporarily restricted, depending on donor specifications and applicable law.

Student Loans Receivable

Student loans receivable are stated net of allowances for doubtful accounts. Student loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions.

Land, Building, and Equipment

Land, buildings and equipment are carried at cost or fair value on the date of gift. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (10-25 years), buildings (10-55 years) and equipment (4-10 years). All gifts of land, buildings and equipment are recorded as unrestricted non-operating activity unless explicit donor stipulations specify how the donated assets must be used.

Capitalized Software Costs

Capitalized software costs included in property, plant and equipment relate to purchased software, which is capitalized and depreciated on a straight-line basis over a five-year period.

Early Retirement Benefits

The University offers an early retirement program to full-time faculty members who meet certain eligibility criteria. During the fiscal year ended May 31, 2011, the Law School also offered a one-time opportunity to Law School faculty and senior administrators to participate in another program. The University accrues the present value of all future benefit payments for individuals who accept the University's early retirement offer at the time of acceptance.

Deferred Revenue

All revenues received and expenditures incurred prior to the end of the fiscal year which relate to the following fiscal year are recorded as deferred revenues or other assets, respectively.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Noncash Gifts

Noncash gifts are recorded at fair value on the date of donation.

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(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

Statement of Activities

Operating revenues reflect all transactions increasing unrestricted and temporarily restricted net assets except those of a capital or long-term nature, such as gifts for long-term investments and endowments. Operating revenues include realized gains appropriated in accordance with the University's endowment spending policy (see description in Note 3).

Operation and maintenance of plant, depreciation and interest expenses have been allocated to the other operating expense categories in Note 12. In addition, student tuition and fees as well as sales and services of auxiliary enterprises are shown net of student financial aid.

Reclassification

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2011 and 2010, the fair value of cash and cash equivalents, short-term investments, and deposits with bond trustees approximate their respective carrying amounts. The fair value of short-term investments, investments and deposits with bond trustees are based on the quoted market price of the underlying securities; the fair value of long-term debt is estimated based primarily on quoted market prices of similar bonds and currently offered mortgage interest rates.

The aggregate carrying amount and fair value of the University's outstanding bonds at May 31, 2011 and 2010 are as follows:

<u>2011</u>		<u>2010</u>	
Carrying Amount	Fair Value	Carrying Amount	Fair Value
\$183,020,000	\$195,060,000	\$190,705,000	\$203,877,000

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

The following tables present the financial instruments carried at fair value on a recurring basis as of May 31, 2011, and May 31, 2010, respectively, and indicates the fair value hierarchy of the valuation techniques that were utilized to determine such fair value.

Fair Value Measurements at Reporting Date (in thousands)				
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 8,007	\$ 8,007	\$ -	\$ -
Domestic equities	83,851	56,420	-	27,431
Domestic corporate and other bonds	32,409	7,057	25,352	-
Foreign equities	81,298	36,798	44,500	-
Hedge funds	67,206	-	-	67,206
Inflation hedging	47,749	19,305	23,427	5,017
Private equities	17,738	-	-	17,738
Venture capital	8,093	-	-	8,093
Real estate	1,530	-	-	1,530
Opportunistic managers	26,212	26,212	-	-
Split-interest agreements	3,802	3,802	-	-
Other investments	830	830	-	-
Total investments at fair value	\$ 378,725	\$ 158,431	\$ 93,279	\$ 127,015

Fair Value Measurements at Reporting Date (in thousands)				
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 8,976	\$ 8,976	\$ -	\$ -
Domestic equities	59,166	37,588	-	21,578
Domestic corporate and other bonds	36,621	10,764	25,857	-
Foreign equities	52,635	18,328	34,307	-
Hedge funds	62,162	-	-	62,162
Inflation hedging	36,070	14,576	17,998	3,496
Private equities	12,807	-	-	12,807
Venture capital	6,498	-	-	6,498
Real estate	1,039	-	-	1,039
Opportunistic managers	26,707	9,753	-	16,954
Split-interest agreements	3,315	3,315	-	-
Other investments	988	988	-	-
Total investments at fair value	\$ 306,984	\$ 104,288	\$ 78,162	\$ 124,534

The methods described in Note 1 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

The following tables present the rollforward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the valuation hierarchy defined above, as of May 31, 2011, and May 31, 2010, respectively:

Level 3 Fair Value Measurements (in thousands)						
	Domestic Equities	Hedge Funds	Inflation Hedging	Private Equities	Opportunistic Managers	Total
Fair Value, June 1, 2010	\$ 21,578	\$ 62,162	\$ 4,535	\$ 19,305	\$ 16,954	\$ 124,534
Unrealized						
Gains/(Losses)	5,853	5,788	710	2,428	(2,041)	12,738
Purchases	-	-	1,700	7,905	2,769	12,374
Sales and Settlements	-	(744)	(398)	(3,807)	(17,682)	(22,631)
Fair Value, May 31, 2011	\$ 27,431	\$ 67,206	\$ 6,547	\$ 25,831	\$ -	\$ 127,015

Level 3 Fair Value Measurements (in thousands)						
	Domestic Equities	Hedge Funds	Inflation Hedging	Private Equities	Opportunistic Managers	Total
Fair Value, June 1, 2009	\$ 17,356	\$ 58,691	\$ 2,724	\$ 16,185	\$ 16,404	\$ 111,360
Unrealized						
Gains/(Losses)	4,222	(1,275)	311	1,706	637	5,601
Purchases	-	18,881	2,078	4,180	12,413	37,552
Sales and Settlements	-	(14,135)	(578)	(2,766)	(12,500)	(29,979)
Fair Value, May 31, 2010	\$ 21,578	\$ 62,162	\$ 4,535	\$ 19,305	\$ 16,954	\$ 124,534

The amount of unrealized gains/(losses) related to financial instruments classified as Level 3 still held at May 31, 2011, included in the statement of activities is as follows (in thousands):

Domestic Equities	\$ 5,853
Hedge Funds	5,788
Inflation Hedging	710
Private Equities	2,428
Opportunistic Managers	-
Total	<u>\$ 14,779</u>

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities (restrictions on ability to redeem investments). The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. Details on remaining estimated life and current redemption terms by asset class and type of investment are provided below:

	<u>Redemption Frequency</u>	<u>Days Notice (if applicable)</u>	<u>Remaining Life for Partnerships</u>
Cash and cash equivalents	Daily		N/A
Domestic equities	Daily, Quarterly	0 - 60	N/A
Domestic corporate and other bonds	Daily, Monthly	0 - 2	N/A
Foreign equities	Daily, Monthly	0 - 30	N/A
Hedge funds	Semi-Annually, Annually	90 - 95	N/A
Inflation hedging	Daily, Monthly, Illiquid	0 - 5	10 to 12 years
Private equities	Illiquid		4 to 11 years
Venture capital	Illiquid		4 to 13 years
Real estate	Illiquid		4 years
Opportunistic managers	Daily		N/A
Split-interest agreements	Daily		N/A
Other investments	Daily		N/A

NOTE 3 - NET ASSETS:

	(in thousands)	
	2011	2010
Temporarily restricted net assets consist of the following:		
Unexpended contributions for instruction and scholarships	\$ 12,651	\$ 14,832
Unexpended contributions for capital expenditures	1,947	1,479
Property, plant, and equipment acquired through donations	32,892	34,122
Annuity and life income funds	2,125	1,618
Endowment – accumulated change in market value of investments and realized gains	59,024	33,688
	<u>\$ 108,639</u>	<u>\$ 85,739</u>
Permanently restricted net assets consist of the following:		
Student loans	\$ 1,876	\$ 1,872
Endowment principal, primarily for scholarships and instruction	154,764	142,942
	<u>\$ 156,640</u>	<u>\$ 144,814</u>

NOTE 3 - NET ASSETS: (Continued)

The University's endowment consists of approximately 500 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of Institutional Funds Act (IMIFA). Governing law resides in 15 Pa. C.S. § 5548, *Investment of Trust Funds*. The University has interpreted relevant Pennsylvania law as requiring the 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by Pennsylvania law.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. 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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Under the University's spending policy, the University utilizes endowment and quasi-endowment resources to support operations at a level of 5% of the 12 calendar quarter moving average of the fair value of endowment and quasi-endowment investment assets calculated as of December 31st of the year immediately preceding the beginning of the University's fiscal year. Any difference between actual investment income and the amounts distributed is retained to support operations of future years. These retained balances are used in any year that the actual total investment return is below the spending rate. The remaining realized and unrealized gains/losses are reported as non-operating revenues. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain spending at an amount equal to or less than total return less inflation.

NOTE 3 - NET ASSETS: (Continued)

At May 31, 2011, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 59,024	\$ 144,659	\$ 203,683
Board-designated funds	171,378	-	-	171,378
Total Funds	<u>\$ 171,378</u>	<u>\$ 59,024</u>	<u>\$ 144,659</u>	<u>\$ 375,061</u>

Changes in endowment net assets for the fiscal year ended May 31, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 137,644	\$ 33,688	\$ 131,205	\$ 302,537
Investment return:				
Investment Income	1,757	1,967	-	3,724
Management and Admin Fees	(867)	(888)	-	(1,755)
Net appreciation (realized and unrealized)	30,667	31,070	-	61,737
Total investment return	31,557	32,149	-	63,706
Contributions	-	-	13,454	13,454
Planned Savings	9,800	-	-	9,800
Distribution for Spending	(8,173)	(6,813)	-	(14,986)
Other changes:				
Aldwyn Lane Distribution	550	-	-	550
Endowment net assets, end of year	<u>\$ 171,378</u>	<u>\$ 59,024</u>	<u>\$ 144,659</u>	<u>\$ 375,061</u>

At May 31, 2010, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 33,688	\$ 131,205	\$ 164,893
Board-designated funds	137,644	-	-	137,644
Total Funds	<u>\$ 137,644</u>	<u>\$ 33,688</u>	<u>\$ 131,205</u>	<u>\$ 302,537</u>

NOTE 3 - NET ASSETS: (Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2010 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 122,685	\$ 25,013	\$ 118,017	\$ 265,715
Investment return:				
Investment Income	1,093	2,201	-	3,294
Management and Admin Fees	(1,170)	(1,175)	-	(2,345)
Net appreciation (realized and unrealized)	14,212	14,211	-	28,423
Total investment return	14,135	15,237	-	29,372
Contributions	-	-	13,188	13,188
Planned Savings	9,300	-	-	9,300
Distribution for Spending	(8,976)	(6,562)	-	(15,538)
Other changes:				
Aldwyn Lane Distribution	500	-	-	500
Endowment net assets, end of year	\$ 137,644	\$ 33,688	\$ 131,205	\$ 302,537

NOTE 4 - ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited represent amounts required to be held by bond trustees for debt service payments, along with amounts to be held in escrow related to the University's self-insured medical insurance program.

NOTE 5 - INVESTMENTS:

Investments at May 31, 2011 and 2010 consisted of the following:

(in thousands)

	2011		2010	
	FAIR VALUE	COST	FAIR VALUE	COST
Cash and cash equivalents	\$ 8,007	\$ 8,006	\$ 8,976	\$ 8,976
Domestic equities	83,851	63,354	59,166	55,670
Domestic corporate and other bonds	32,409	30,701	36,621	35,195
Foreign equities	81,298	67,571	52,635	55,291
Hedge funds	67,206	58,004	62,162	58,748
Inflation hedging	47,749	35,071	36,070	28,420
Private equities	17,738	15,998	12,807	12,693
Venture capital	8,093	6,967	6,498	6,174
Real estate	1,530	1,871	1,039	1,350
Opportunistic managers	26,212	23,901	26,707	24,913
Split-interest agreements	3,802	3,478	3,315	3,627
Other investments	830	832	988	1,019
	\$ 378,725	\$ 315,754	\$ 306,984	\$ 292,076

NOTE 5 - INVESTMENTS: (Continued)

The University uses various external investment managers to diversify the investments in alternative assets. The largest allocation to any alternative investment strategy manager as of May 31, 2011 and 2010 was 7.3% and 7.3%, respectively. At May 31, 2011, based on partnership agreements, the University was committed to invest an additional \$24.8 million in alternative investments, which is expected to occur over the next five to ten years. Alternative investments have liquidity restrictions. Amounts can be divested only at specified times based on terms in the partnership agreements. The financial statements of the limited partnerships are audited annually, generally as of December 31.

Investment gain (loss) consisted of and is reported in the consolidated statements of activities as follows for the year ended May 31:

	(in thousands)	
	2011	2010
Interest and dividends	\$ 1,839	\$ 952
Net realized (losses) gains	13,502	6,977
Net change in unrealized gains and losses	48,033	22,633
	<u>\$ 63,374</u>	<u>\$ 30,562</u>

NOTE 6 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2011 and 2010 consisted of the following:

	(in thousands)	
	2011	2010
Land and improvements	\$ 27,031	\$ 27,022
Buildings and improvements	490,681	471,053
Equipment	52,764	52,944
Construction in progress	1,319	6,485
Unamortized asset retirement costs	995	1,089
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	<u>591,175</u>	<u>576,978</u>
Less accumulated depreciation	<u>(242,284)</u>	<u>(229,192)</u>
	<u>\$ 348,891</u>	<u>\$ 347,786</u>

Depreciation expense totaled \$17,806,000 and \$16,326,000 for the years ended May 31, 2011 and 2010, respectively.

NOTE 7 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2011 and 2010 consisted of the following:

	(in thousands)	
	2011	2010
Faculty and Staff Salaries	\$ 13,261	\$ 12,467
Early Retirement Plan Payments	1,039	618
Interest on Long-Term Debt	1,638	1,739
Vacation Accrual	2,365	2,293
Asset Retirement Obligations	1,812	1,822
Payroll Tax Withholdings	3,046	3,360
Annuities Payable	1,210	1,368
Workers Compensation Claims	1,852	1,593
Copier Leases	1,107	1,054
Other	3,834	3,356
	<u>\$ 31,164</u>	<u>\$ 29,670</u>

NOTE 8 - LEASES:

The University leases equipment and vehicles under operating leases expiring through May 2016. Operating rental expense for the years ended May 31, 2011 and 2010 totaling \$5,275,000 and \$5,296,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At May 31, 2011, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2012	\$ 2,887
2013	535
2014	84
2015	35
2016	25
Thereafter	-
Total minimum lease payments	<u>\$ 3,566</u>

The University also leases copiers under capital lease agreements expiring through May 2016. Rental expense associated with these capital leases for the years ended May 31, 2011 and 2010 totaling \$111,000 and \$130,000, respectively, is also included in the Consolidated Statements of Activities.

At May 31, 2011, future minimum lease payments under capital leases with remaining terms greater than one year were as follows (in thousands):

2012	\$ 346
2013	303
2014	259
2015	156
2016	43
Thereafter	-
Total minimum lease payments	<u>\$ 1,107</u>

NOTE 9 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2011 and 2010 consisted of the following:

DESCRIPTION	MATURITY DATE	INTEREST RATE	(in thousands)	
			PRINCIPAL BALANCE 2011	2010
Delaware County Authority (a):				
2010 Bonds	12/1/2011 to 12/1/2031	2.25% to 5.25%	\$ 81,224 *	\$ 83,416 *
2006 Bonds	8/1/2011 to 8/1/2024	3.50% to 5.00%	48,904 *	49,855 *
2005 Bonds	8/1/2011 to 8/1/2024	4.00% to 5.00%	23,125 *	24,255 *
2003 Bonds	8/1/2011 to 8/1/2022	4.25% to 5.25%	30,985 *	32,873 *
1998A Bonds	12/1/2011 to 12/1/2013	5.50%	6,833 *	8,873 *
U.S. Dept. of HUD (b):				
1969 Dormitory Bonds	4/1/2019	3.00%	550	610
Mortgage Note – Aldwyn Lane				
Rental Properties (c)	1/10/2022	7.35%	9,873	10,462
			\$ 201,494	\$ 210,344

*Net of original issue discount/(premium) as follows:

	(in thousands)	
	2011	2010
2010 Bonds	\$ (3,444)	\$ (3,611)
2006 Bonds	(1,924)	(2,070)
2005 Bonds	(725)	(780)
2003 Bonds	(2,049)	(2,233)
1998A Bonds	91	127
	<u>\$ (8,051)</u>	<u>\$ (8,568)</u>

NOTE 9 - LONG-TERM DEBT: (Continued)

- (a) The University has pledged and granted to the Delaware County Authority a lien on and security interest in the University's unrestricted revenues and certain property and equipment to collateralize the annual principal maturities and interest payments which average approximately \$16,485,000 through 2016, and \$11,668,000 from 2017 to 2032. The University is required to maintain unrestricted net revenues equal to 100% of the annual debt service requirement.
- (b) To collateralize the annual principal and interest payments, the University has granted a mortgage lien on the Stanford dormitory and related parcels of land. Annual principal and interest payments are approximately \$80,000.
- (c) The mortgage note on the Aldwyn Lane rental properties is collateralized by the related buildings and parcels of land. The mortgage note is non-recourse to the University. Equal monthly payments are to be made over the twenty-year term of the loan.

In January 2010, the University's 2010 Debt Series was issued by Delaware County Authority to refinance a portion of the 1998A Series and all of the outstanding 1998B, 2001, and 2002 Series. The 2010 Series was issued as fixed rate debt, principal amount of \$79,805,000. As a result of the refinancing, the University no longer holds variable rate debt.

Aggregate maturities of long-term debt including call provisions at 100% for each of the next five fiscal years are as follows (in thousands):

2012	\$ 8,363
2013	8,842
2014	9,288
2015	9,824
2016	10,309
Thereafter	146,816

Interest paid on long-term debt amounted to \$9,580,000 and \$9,731,000 for the years ended May 31, 2011 and 2010, respectively. Interest expense allocated to the operating expense categories in the consolidated statement of activities amounted to \$8,567,000 and \$8,892,000 for the years ended May 31, 2011 and 2010, respectively.

The University is required, among other things, to generate net revenue at least equal to 100% of annual debt service requirements. The University was in compliance with such requirements at May 31, 2011 and 2010.

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS:

For full-time faculty members and for full-time non-academic employees not covered by the defined benefit plan, the University sponsors a defined contribution retirement plan under which the University makes annual contributions for the benefit of the participants to either the Teachers Insurance Annuity Association of America-College Retirement Equities Fund (TIAA-CREF) or The Vanguard Group, at the option of the participants, and the University has no further liability. The University's contributions to the defined contribution plan amounted to \$10,436,000 and \$9,922,000 for the years ended May 31, 2011 and 2010, respectively.

The University has a non-contributory defined benefit pension plan for certain full-time non-academic employees employed prior to May 31, 1996. Benefits under the plan are based on years of service and the highest average level of earnings for any three consecutive years during the last ten years of service. In October 1999, the University offered participants in the plan the opportunity to transfer to the defined contribution plan effective January 1, 2000. Effective January 1, 2000, the benefits for new retirees, those employees that did not transfer to the defined contribution plan in October 1999 and those employees retiring between June 1, 1998 and December 31, 1999 are based on the highest average level of earnings for any three consecutive years during the last ten years of service.

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The University provides postretirement medical benefits to all employees who meet certain eligibility requirements. The University accrues for expected medical postretirement benefits over the years that the employees render the necessary service.

The University recognizes the funded status (the difference between the fair value of plan assets and the benefit obligation) of its pension and other postretirement plans in the consolidated statement of financial position, with a corresponding adjustment to unrestricted net assets. These amounts are recognized as net periodic cost. Further, actuarial gains and losses that are not recognized as net periodic costs in the same periods are recognized as other changes in unrestricted net assets.

The following is a reconciliation of the beginning and ending balances of the pension benefits projected benefit obligation of the University (in thousands):

Change in Benefit Obligation	2011	2010
Benefit obligation at the beginning of the year	\$ 51,465	\$ 43,545
Interest cost on projected benefit obligations	2,690	2,873
Service costs – during the year	346	303
Actuarial (gain)/loss	2,389	7,149
Benefits and administrative expenses paid	(2,488)	(2,405)
Benefit obligation at the end of the year	<u>\$ 54,402</u>	<u>\$ 51,465</u>

The following table sets forth the funded status and amount recognized in the University's consolidated balance sheets for its defined benefit plan:

Change in Plan Assets	2011	2010
Fair value of plan assets at beginning of year	\$ 36,122	\$ 32,325
Actual return on plan assets	7,022	5,802
Employer contributions	2,300	400
Benefits and administrative expenses paid	(2,488)	(2,405)
Fair value of plan assets at end of year	<u>\$ 42,956</u>	<u>\$ 36,122</u>

Funded Status

Actuarial present value of benefit obligations:

Projected benefit obligation	\$ (54,402)	(51,465)
Plan assets at fair value*	<u>42,956</u>	<u>36,122</u>
Funded Status	<u>\$ (11,446)</u>	<u>\$ (15,343)</u>

*Consist principally of investments in debt and equity funds.

The principal assumptions used in determining the actuarial present value of projected benefit obligations were as follows:

	2011	2010
Weighted average discount rate	5.00%	5.37%
Rate of increase in compensation levels	3.50%	3.50%
Expected long-term rate of return on assets	7.50%	7.50%

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

Components of Net Periodic Benefit Cost	(in thousands)	
	2011	2010
Service cost – benefits earned during the period	\$ 346	\$ 303
Interest cost on projected benefit obligation	2,690	2,873
Expected return on plan assets	(2,693)	(2,482)
Amortization of unrecognized net loss	2,236	2,116
Amortization of prior service cost	-	-
Total net periodic benefit cost	<u>\$ 2,579</u>	<u>\$ 2,810</u>

Plan assets are allocated at May 31, 2011 and May 31, 2010 as follows:

Plan Assets	2011	2010
Equity Securities	52%	59%
Debt Securities	39%	41%
Other	9%	0%
Total	<u>100%</u>	<u>100%</u>

The plan assets are diversified among a mix of assets including large, mid, and small cap, domestic and international equities, fixed income, managed funds, and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored monthly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Retirement Plans Investment Committee oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the portfolio performance.

The following table presents the Plan's financial instruments as of May 31, 2011, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 1:

	(in thousands)				Valuation Technique
	Level 1	Level 2	Level 3	Total	
Pension investment program:					
Equity securities	\$ -	\$22,371	\$ -	\$22,371	Market
Debt securities	-	16,812	-	16,812	Market
Other	300	3,470	3	3,773	Market
Total pension investment program	<u>\$ 300</u>	<u>\$42,653</u>	<u>\$ 3</u>	<u>\$42,956</u>	

The fair value of the Level 3 assets for the Plan has remained unchanged for the period from May 31, 2010 to May 31, 2011. There were no realized/unrealized gains/losses, purchases, sales, or net investment income from May 31, 2010 through May 31, 2011.

The expected benefit payments from the Plan in subsequent years are as follows:

Year ending	(in thousands)
May 31, 2012	\$ 3,129
May 31, 2013	3,231
May 31, 2014	3,364
May 31, 2015	3,432
May 31, 2016	3,498
May 31, 2017 through May 31, 2020	18,424

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The components of medical postretirement benefits as of May 31, 2011 and 2010 are as follows:

	(in thousands)	
	2011	2010
Projected benefit obligation	\$ 14,224	\$ 13,785
Fair value of plan assets	-	-
Unfunded status	<u>\$ (14,224)</u>	<u>\$ (13,785)</u>
Accrued post-retirement benefits	<u>\$ (14,224)</u>	<u>\$ (13,785)</u>
Weighted-average assumptions:		
Discount rate	4.94%	5.41%

There is no healthcare cost trend rate associated with the liabilities, because the University provides a fixed subsidy for postretirement medical benefits. Benefit expense totaled \$1,251,000 and \$1,090,000 for the years ended May 31, 2011 and 2010, respectively. Benefits paid totaled \$711,000 and \$770,000 for the years ended May 31, 2011 and 2010, respectively.

The University allows faculty members that meet specific criteria for eligibility to elect to participate in an ongoing voluntary severance program. During the fiscal year ended May 31, 2011, the Law School also offered a one-time opportunity to Law School faculty and senior administrators to participate in another program. The accrued liability for future payments under these programs amounted to \$1,039,000 and \$618,000 as of May 31, 2011 and 2010, respectively.

NOTE 11 - OPERATING EXPENSE:

Expenses were incurred for the following functions for the years ended May 31:

	(in thousands)	
	2011	2010
Instruction	\$ 144,639	\$ 139,595
Research	7,833	7,123
Academic support	43,452	41,648
Student services	45,642	43,756
Institutional support	43,871	38,976
Auxiliary enterprises	64,179	64,593
Total operating expense	<u>\$ 349,616</u>	<u>\$ 335,691</u>

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2011 and 2010 of \$11,032,000 and \$8,020,000, respectively.

NOTE 12 - ALLOCATION OF EXPENSES:

The University allocated operation and maintenance of plant, interest on indebtedness and depreciation expenses to functional expense categories in the consolidated statement of activities for the fiscal years ended May 31, 2011 and 2010. Those expenses were allocated to the individual functional categories as follows:

	(in thousands)		
	2011		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	\$ 9,902	\$ 3,653	\$ 7,577
Research	-	135	155
Academic support	1,463	464	847
Student services	4,174	175	2,062
Institutional support	1,828	140	1,070
Auxiliary enterprises	13,102	3,494	4,840
Operation and maintenance of plant	-	506	1,255
	<u>\$ 30,469</u>	<u>\$ 8,567</u>	<u>\$ 17,806</u>

	(in thousands)		
	2010		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	\$ 10,103	\$ 4,477	\$ 6,170
Research	-	169	131
Academic support	1,492	304	753
Student services	4,259	135	2,063
Institutional support	1,865	113	1,286
Auxiliary enterprises	13,367	3,365	4,632
Operation and maintenance of plant	-	329	1,291
	<u>\$ 31,086</u>	<u>\$ 8,892</u>	<u>\$ 16,326</u>

NOTE 13 - INCOME TAX:

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University files IRS Form 990-T (Exempt Organization Business Income Tax Return) annually, with regards to unrelated business income reported on IRS Form 990-T.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

During the 2011 fiscal year, the University invested \$7,908,000 in twenty-one long-term partnerships which were formed prior to the 2011 fiscal year, bringing its cumulative contributions to the partnerships to \$43,312,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of May 31, 2011, the University's remaining commitments to these twenty-one partnerships total approximately \$24,796,000. There were no new long-term partnerships formed during the 2011 fiscal year.

Outstanding commitments related to construction contracts totaled approximately \$5,277,000 as of May 31, 2011.

The University has a \$5,000,000 unsecured line of credit. No portion of the line was utilized during the fiscal year.

NOTE 15 - UNCONDITIONAL PROMISES AND PLEDGES:

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the University reports the support as unrestricted. Conditional promises are recorded when donor stipulations are substantially met.

Unconditional promises at May 31, 2011 and 2010 and the time periods in which they are expected to be realized are as follows:

	(in thousands)	
	2011	2010
In one year or less	\$ 17,701	\$ 18,237
Between one year and five years	7,987	10,094
In more than five years	57	72
Less: Discount	(1,285)	(1,927)
Allowance for doubtful accounts	(6,099)	(5,073)
	<u>\$ 18,361</u>	<u>\$ 21,403</u>

Estimated cash flows from pledges receivable due after one year are discounted using a base rate of the Federal Reserve Treasury constant maturities 5-year rate of return, adjusted for a risk factor related to potential write-offs of uncollectible pledges.

NOTE 16 - SUBSIDIARIES:

The Aldwyn Lane LLC (LLC) and the Aldwyn Lane Limited Partnership (Partnership) were formed by the University for the purpose of acquiring property and office space adjacent to the campus. The LLC is 100% owned by the University, and it is the general partner in the Partnership, in which the University is the limited partner. The Partnership purchased property and office space adjacent to the campus in December 2001, and entered into an agreement to lease back the property to the previous owner for a period of twenty years. The Partnership also obtained a mortgage on the property at the time of purchase.

Rental income related to the property is collected by the Partnership, and the mortgage payments are made by the Partnership. The title to the property and the related mortgage are both held by the Partnership. The assets and liabilities of both the Partnership and the LLC are consolidated into the University financial statements, and the net income from the rental of the property is shown as non-operating income on the consolidated statement of activities.

NOTE 17 – SUBSEQUENT EVENTS:

In May 2009, the FASB issued a standard on Subsequent Events. This topic provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It is effective for fiscal periods ending after June 15, 2009, and was required to be adopted by the University in 2010. The adoption of this standard only affected disclosures, and thus had no impact on the University's financial position, results of operations or cash flows. In connection with the preparation of the consolidated financial statements and in accordance with the new standard, the University evaluated subsequent events after the balance sheet date of May 31, 2011 through its distribution date of October 11, 2011.



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