VILLANOVA
UNIVERSITY
and Subsidiaries

FINANCIAL STATEMENTS
MAY 31, 2012

VILLANOVA UNIVERSITY

FINANCIAL STATEMENTS
May 31, 2012

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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, 2012 and 2011, 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. 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 of these statements 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, 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

September 24, 2012

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VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Financial Position at May 31, 2012 and 2011

(in thousands)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 150,981	$ 144,858
Short-term investments	927	949
Accounts receivable, less allowances of $821 in 2012 and $1,049 in 2011	7,579	10,009
Inventories	2,305	1,945
Other assets	5,566	6,643
Assets whose use is limited	2,094	2,092
Pledges receivable, net	18,604	18,361
Student loans receivable, net	12,221	11,910
Investments	360,544	378,725
Land, buildings and equipment, net	353,368	348,891
Total assets	$ 914,189	$ 924,383
LIABILITIES		
Accounts payable	$ 11,837	$ 9,443
Accrued expenses	33,686	31,164
Deposits	3,412	4,595
Deferred revenues	13,090	11,070
Accrued postretirement benefits	15,656	14,224
Refundable government loan funds	8,211	7,204
Long-term debt	192,614	201,494
Accrued pension cost	16,507	11,446
Total liabilities	295,013	290,640
NET ASSETS		
Unrestricted	362,326	368,464
Temporarily restricted	92,176	108,639
Permanently restricted	164,674	156,640
Total net assets	619,176	633,743
Total liabilities and net assets	$ 914,189	$ 924,383

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, 2012
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of $88,366 in student financial aid	$ 260,864			$ 260,864	$ 256,654
Sales and services of auxiliary enterprises, net of $2,152 in student financial aid	65,946			65,946	65,062
	326,810			326,810	321,716
Private gifts and grants	14,388	$ 6,059		20,447	14,109
Government grants	7,392			7,392	10,142
Endowment resources	8,118	6,883		15,001	14,986
Investment income	378			378	573
Other sources	15,829	84		15,913	17,173
Net assets released from restrictions	9,973	(9,973)		-	-
Total operating revenues	382,888	3,053	$ -	385,941	378,699
OPERATING EXPENSES					
Salaries and fringe benefits	219,437			219,437	211,472
Supplies and services	47,124			47,124	44,844
Depreciation	17,897			17,897	17,806
Cost of goods sold	13,017			13,017	13,580
Interest on indebtedness	8,212			8,212	8,567
Travel and special events	12,877			12,877	12,556
Utilities	7,922			7,922	8,871
Other	34,519			34,519	31,920
Total operating expenses	361,005	-	-	361,005	349,616
Change in net assets from operating activities	21,883	3,053	-	24,936	29,083
NON-OPERATING					
Investment Income					
Interest and dividends	1,345	1,026	170	2,541	1,839
Realized (losses)/gains	6,945	6,989	(29)	13,905	13,502
Other					
Rental property revenue	2,167			2,167	2,158
Rental property expenses	(1,390)			(1,390)	(1,600)
Change in fair value of investments	(19,041)	(20,648)	(62)	(39,751)	48,033
Adjustment to asset retirement obligations	98			98	-
Endowment resources	(8,118)	(6,883)		(15,001)	(14,986)
	(17,994)	(19,516)	79	(37,431)	48,946
Endowment and other gifts			7,955	7,955	11,741
Change in net assets from non-operating activities	(17,994)	(19,516)	8,034	(29,476)	60,687
Change in net assets before other adjustments	$ 3,889	$ (16,463)	$ 8,034	$ (4,540)	$ 89,770

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)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010 Total
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
	321,716			321,716	310,957
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	381,291	(2,592)	$ -	378,699	368,730
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	349,616	-	-	349,616	335,691
Change in net assets from operating activities	31,675	(2,592)	-	29,083	33,039
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)
	23,113	25,492	341	48,946	15,768
Endowment and other gifts	256		11,485	11,741	7,811
Change in net assets from non-operating activities	23,369	25,492	11,826	60,687	23,579
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	$ 55,044	$ 22,900	$ 11,826	$ 89,770	$ 54,329

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, 2012 and 2011
(in thousands)

	2012	2011
Unrestricted Net Assets:		
Change in net assets before other adjustments	$ 3,889	$ 55,044
Adjustment for retirement plan obligations	(10,027)	4,278
Decrease in unrestricted net assets	(6,138)	59,322
Temporarily Restricted Net Assets:		
Change in net assets	(16,463)	22,900
Decrease in temporarily restricted net assets	(16,463)	22,900
Permanently Restricted Net Assets:		
Change in net assets	8,034	11,826
Increase in permanently restricted net assets	8,034	11,826
Decrease in net assets	(14,567)	94,048
Net assets:		
Beginning of Year	633,743	539,695
End of Year	$ 619,176	$ 633,743

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, 2012 and 2011
(in thousands)

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
(Decrease)/Increase in net assets	$ (14,567)	$ 94,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,897	17,806
Contributions restricted for long-term investment	(8,676)	(13,959)
Realized gains on sales of investments	(13,905)	(13,502)
Change in market value of investments	39,751	(48,033)
Pension and other postretirement benefit plan adjustments	10,027	(4,278)
Receipt of contributed securities	(1,079)	(4,038)
Amortization of debt (premium)/discount	(516)	(516)
Changes in operating assets and liabilities:		
Accounts receivable	2,658	918
Pledges receivable	(889)	2,016
Provision for doubtful accounts	434	592
Accounts payable and accrued expenses	1,658	496
Other changes	(1,980)	2,037
Net cash provided by operating activities	30,813	33,587
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	155,836	137,511
Purchases of investments	(162,422)	(143,679)
Student loans receivable	(327)	(57)
Purchase of land, buildings and equipment	(19,116)	(20,482)
Short-term investments, net	22	(36)
Increase in assets whose use is limited	(2)	(1,972)
Net cash used by investing activities	(26,009)	(28,715)
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	8,676	13,959
Repayment of debt principal	(8,364)	(8,334)
Government loan funds	1,007	394
Net cash provided by financing activities	1,319	6,019
Net (decrease)/increase in cash and cash equivalents	6,123	10,891
Cash and cash equivalents at beginning of year	144,858	133,967
Cash and cash equivalents at end of year	$ 150,981	$ 144,858
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	$ 4,951	$ 1,693
Cash paid for interest	9,225	9,580
Tax payments	863	416
Contributed securities	1,079	4,038

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

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 270 acres and comprises 76 buildings. The University also has a Conference Center approximately one-half mile from the campus which encompasses 33 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, exchange traded funds, commingled funds and limited partnership interests.

Investments in domestic equities consist of separate accounts, one exchange traded fund, and one limited partnership investment. Securities in the separate accounts and the exchange traded fund 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. 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, daily traded mutual funds, and one exchange traded fund. Securities held in daily traded mutual funds and exchange traded 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 net asset value (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)

Fair Value

The University's pension assets consist of common collective trusts, an open-end real estate fund, and a temporary investment fund.

Investments in common collective trusts consist of equity securities and fixed income options traded in an active exchange market, as well as investments in mutual funds. The assets are valued at the net asset value of units held at year-end. When available, quoted market prices are used to value the underlying investments held by the collective trusts. For underlying investments consisting of fixed maturities, valuations are generally obtained from third-party pricing services for identical or comparable assets or liabilities, non-binding broker quotes (when pricing service information is not available) or through the use of valuation methodologies using observable inputs. For underlying investments where vendor pricing is not available, internally developed valuations using one or more unobservable inputs or non-binding quotes are used to determine fair value. These investments are categorized as Level 2 in the fair value hierarchy.

The assets of the open-end real estate fund are valued based on a net asset value. The net asset value is derived from the underlying value of the property and other assets held. Fair value is estimated based upon property appraisal reports prepared by independent real estate appraisers within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. This real estate fund is categorized as Level 3 in the fair value hierarchy.

Investments in the temporary investment fund consist of temporary cash investments carried at cost, which approximated fair value, and are categorized as Level 1 in the fair value hierarchy.

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.

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

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. 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.

Noncash Gifts

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

Medical Coverage

The University is self-insured for medical and prescription coverage and pays the actual cost of claims. As the University is not fully insured, it bears full risk related to these claims. There are risk-mitigation strategies in place such as stop loss insurance to counter catastrophic claims.

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 functional 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, 2012 and 2011, 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, 2012 and 2011 are as follows:

2012		2011	
Carrying Amount	Fair Value	Carrying Amount	Fair Value
$ 175,350,000	$ 192,784,000	$ 183,020,000	$ 195,060,000

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.

The following tables present the financial instruments carried at fair value on a recurring basis as of May 31, 2012 and May 31, 2011, 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	$ 6,311	$ 6,311	$ -	$ -
Domestic equities	89,286	60,795	-	28,491
Domestic corporate and other bonds	38,400	7,133	31,267	-
Foreign equities	70,835	56,485	14,350	-
Hedge funds	48,636		-	48,636
Inflation hedging	44,114	16,761	20,481	6,872
Private equities	18,994		-	18,994
Venture capital	10,099		-	10,099
Real estate	1,746		-	1,746
Opportunistic managers	28,081	28,081	-	-
Split-interest agreements	3,251	3,251		
Other investments	791	791	-	-
Total investments at fair value	$ 360,544	$ 179,608	$ 66,098	$ 114,838

	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

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

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.

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, 2012 and May 31, 2011, respectively:

	Level 3 Fair Value Measurements (in thousands)					
	Domestic Equities	Hedge Funds	Inflation Hedging	Private Equities	Opportunistic Managers	Total
Fair Value, June 1, 2011	$ 27,431	$ 67,206	$ 6,547	$ 25,831	$ -	$ 127,015
Total Gains/(Losses)	1,060	(1,373)	501	2,609	-	2,797
Purchases	-	-	1,794	4,860	-	6,654
Sales	-	(342)	-	-	-	(342)
Settlements	-	(16,855)	(224)	(4,207)	-	(21,286)
Fair Value, May 31, 2012	$ 28,491	$ 48,636	$ 8,618	$ 29,093	$ -	$ 114,838

	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
Total Gains/(Losses)	5,853	5,763	918	3,555	728	16,817
Purchases	-	-	1,287	5,827	-	7,114
Sales	-	-	-	-	-	-
Settlements	-	(719)	(193)	(2,856)	(17,682)	(21,450)
Fair Value, May 31, 2011	$ 27,431	$ 67,206	$ 6,547	$ 25,831	$ -	$ 127,015

The amount of unrealized gains/(losses) and realized gains/(losses) related to financial instruments classified as Level 3 still held at May 31, 2012, included in the statement of activities is as follows (in thousands):

	Domestic Equities	Hedge Funds	Inflation Hedging	Private Equities	Opportunistic Managers	Total
Unrealized Gains/(Losses)	$ 1,060	$ (4,278)	$ 257	$ 1,349	$ -	$ (1,612)
Realized Gains/(Losses)	-	2,905	186	1,272	-	4,363

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:

	Redemption Frequency	Days Notice (if applicable)	Remaining Life for Partnerships
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	9 to 11 years
Private equities	Illiquid		2 to 10 years
Venture capital	Illiquid		3 to 12 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) 2012	2011
Temporarily restricted net assets consist of the following:		
Unexpended contributions for instruction and scholarships	$ 16,337	$ 12,651
Unexpended contributions for capital expenditures	2,335	1,947
Property, plant, and equipment acquired through donations	31,549	32,892
Annuity and life income funds	1,861	2,125
Endowment – accumulated change in market value of investments and realized gains	40,094	59,024
	$ 92,176	$ 108,639
Permanently restricted net assets consist of the following:		
Student loans	$ 1,876	$ 1,876
Endowment principal, primarily for scholarships and instruction	162,798	154,764
	$ 164,674	$ 156,640

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, 2012, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 40,094	$ 153,802	$ 193,896
Board-designated funds	163,126	-	-	163,126
Total Funds	$ 163,126	$ 40,094	$ 153,802	$ 357,022

Changes in endowment net assets for the fiscal year ended May 31, 2012 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 171,378	$ 59,024	$ 144,659	$ 375,061
Investment return:				
Investment Income	2,161	2,247	-	4,408
Management and Admin Fees	(934)	(945)	-	(1,879)
Net appreciation (realized and unrealized)	(12,211)	(13,349)	-	(25,560)
Total investment return	(10,984)	(12,047)	-	(23,031)
Contributions	-	-	9,143	9,143
Planned Savings	10,300	-	-	10,300
Distribution for Spending	(8,118)	(6,883)	-	(15,001)
Other changes:				
Aldwyn Lane Distribution	550	-	-	550
Endowment net assets, end of year	$ 163,126	$ 40,094	$ 153,802	$ 357,022

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

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

NOTE 3 - NET ASSETS: (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$ 171,378	$ 59,024	$ 144,659	$ 375,061

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 health insurance program.

NOTE 5 - INVESTMENTS:

Investments at May 31, 2012 and 2011 consisted of the following:

(in thousands)

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 6,311	$ 6,311	$ 8,007	$ 8,006
Domestic equities	89,286	69,422	83,851	63,354
Domestic corporate and other bonds	38,400	35,386	32,409	30,701
Foreign equities	70,835	82,306	81,298	67,571
Hedge funds	48,636	43,712	67,206	58,004
Inflation hedging	44,114	40,269	47,749	35,071
Private equities	18,994	16,702	17,738	15,998
Venture capital	10,099	8,176	8,093	6,967
Real estate	1,746	2,087	1,530	1,871
Opportunistic managers	28,081	28,819	26,212	23,901
Split-interest agreements	3,251	3,326	3,802	3,478
Other investments	791	809	830	832
	$ 360,544	$ 337,325	$ 378,725	$ 315,754

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, 2012 and 2011 was 8.0% and 7.3%, respectively. At May 31, 2012, based on partnership agreements, the University was committed to invest an additional $21.2 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)	
	2012	2011
Interest and dividends	$ 2,541	$ 1,839
Net realized (losses) gains	13,905	13,502
Net change in unrealized gains and losses	(39,751)	48,033
	$ (23,305)	$ 63,374

NOTE 6 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2012 and 2011 consisted of the following:

	(in thousands)	
	2012	2011
Land and improvements	$ 27,031	$ 27,031
Buildings and improvements	496,095	490,681
Equipment	52,821	52,764
Construction in progress	17,710	1,319
Unamortized asset retirement costs	983	995
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	613,025	591,175
Less accumulated depreciation	(259,657)	(242,284)
	$ 353,368	$ 348,891

Depreciation expense totaled $17,897,000 and $17,806,000 for the years ended May 31, 2012 and 2011, respectively.

NOTE 7 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2012 and 2011 consisted of the following:

	(in thousands)	
	2012	2011
Faculty and Staff Salaries	$ 14,404	$ 13,261
Payroll Tax Withholdings	2,858	3,046
Vacation Accrual	2,500	2,365
Asset Retirement Obligations	1,841	1,812
Workers Compensation Claims	1,786	1,852
Interest on Long-Term Debt	1,577	1,638
Annuities Payable	992	1,210
Copier Leases	983	1,107
Early Retirement Plan Payments	440	1,039
Other	6,305	3,834
	$ 33,686	$ 31,164

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, 2012 and 2011, totaling $5,028,000 and $5,275,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At May 31, 2012, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2013	$ 4,920
2014	2,449
2015	346
2016	25
2017	-
Total minimum lease payments	$ 7,740

The University also leases copiers under capital lease agreements expiring through May 2017. Rental expense associated with these capital leases for the years ended May 31, 2012 and 2011, totaling $100,000 and $111,000, respectively, is also included in the Consolidated Statements of Activities.

At May 31, 2012, future minimum lease payments under capital leases with remaining terms greater than one year were as follows (in thousands):

2013	$ 352
2014	308
2015	206
2016	92
2017	25
Total minimum lease payments	$ 983

NOTE 9 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2012 and 2011 consisted of the following:

Description	Maturity Date	Interest Rate	(in thousands) Principal Balance 2012		2011	
Delaware County Authority (a):						
2010 Bonds	12/1/2012 to 12/1/2031	2.25% to 5.25%	$ 79,302	*	$ 81,224	*
2006 Bonds	8/1/2012 to 8/1/2024	3.50% to 5.00%	47,943	*	48,904	*
2005 Bonds	8/1/2012 to 8/1/2024	4.00% to 5.00%	21,950	*	23,125	*
2003 Bonds	8/1/2012 to 8/1/2022	4.25% to 5.25%	29,006	*	30,985	*
1998A Bonds	12/1/2012 to 12/1/2013	5.50%	4,684	*	6,833	*
U.S. Dept. of HUD (b):						
1969 Dormitory Bonds	4/1/2019	3.00%	490		550	
Mortgage Note – Aldwyn Lane Rental Properties (c)	1/10/2022	7.35%	9,239		9,873	
			$ 192,614		$ 201,494	

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

	(in thousands) 2012	2011
2010 Bonds	$ (3,277)	$ (3,444)
2006 Bonds	(1,778)	(1,924)
2005 Bonds	(670)	(725)
2003 Bonds	(1,866)	(2,049)
1998A Bonds	56	91
	$ (7,535)	$ (8,051)

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 $16,519,000 through 2017, and $11,340,000 from 2018 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 $79,000.

(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):

2013	$ 8,842
2014	9,288
2015	9,824
2016	10,309
2017	10,869
Thereafter	135,947

Interest paid on long-term debt amounted to $9,225,000 and $9,580,000 for the years ended May 31, 2012 and 2011, respectively. Interest expense allocated to the functional expense categories in Note 11 amounted to $8,212,000 and $8,567,000 for the years ended May 31, 2012 and 2011, 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, 2012 and 2011.

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 $11,066,000 and $10,436,000 for the years ended May 31, 2012 and 2011, 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.

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.

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

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	2012	2011
Benefit obligation at the beginning of the year	$ 54,402	$ 51,465
Interest cost on projected benefit obligations	2,626	2,690
Service costs – during the year	364	346
Actuarial (gain)/loss	6,194	2,389
Benefits and administrative expenses paid	(2,605)	(2,488)
Benefit obligation at the end of the year	$ 60,981	$ 54,402

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

	2012	2011
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 42,956	$ 36,122
Actual return on plan assets	(1,177)	7,022
Employer contributions	5,300	2,300
Benefits and administrative expenses paid	(2,605)	(2,488)
Fair value of plan assets at end of year	$ 44,474	$ 42,956
Funded Status		
Actuarial present value of benefit obligations:		
Projected benefit obligation	$ (60,981)	$ (54,402)
Plan assets at fair value*	44,474	42,956
Funded Status	$ (16,507)	$ (11,446)

*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:

	2012	2011
Weighted average discount rate	4.19%	5.00%
Rate of increase in compensation levels	3.50%	3.50%
Expected long-term rate of return on assets	7.25%	7.50%

The University develops a target asset allocation for the pension assets, with the assistance of an independent investment consultant. In line with the asset allocation, the May 31st asset valuations are shared with the University's actuarial consultant. The actuarial consultant utilizes a model to determine a range of reasonable expected rates of return based on the asset allocation and current capital market assumptions. The results are shared with the University and further discussed with the independent investment consultant and pension plan administrator. The expected rate of return is selected and is then used in developing the following year's fiscal expense for the pension plan.

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

	(in thousands)	
Components of Net Periodic Benefit Cost	2012	2011
Service cost – benefits earned during the period	$ 364	$ 346
Interest cost on projected benefit obligation	2,626	2,690
Expected return on plan assets	(3,285)	(2,693)
Amortization of unrecognized net loss	1,545	2,236
Amortization of prior service cost	-	-
Total net periodic benefit cost	$ 1,250	$ 2,579

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

	2012	2011
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%

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

Year ending	(in thousands)
May 31, 2013	$ 3,218
May 31, 2014	3,369
May 31, 2015	3,460
May 31, 2016	3,546
May 31, 2017	3,603
May 31, 2018 through May 31, 2022	19,088

The minimum required contribution to the defined benefit plan for the period ending May 31, 2013 is $2,640,000. The University plans on contributing $2,640,000 during the fiscal year ending May 31, 2013.

Plan assets are allocated at May 31, 2012 and May 31, 2011 as follows:

Plan Assets	2012	2011
Equity Securities	44%	52%
Debt Securities	40%	39%
Other	16%	9%
Total	100%	100%

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 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. The Retirement Plans Investment Committee oversees the pension investment program and monitors investment performance, utilizing specific benchmarks and performance percentiles. Risk is closely monitored through the evaluation of portfolio holdings and tracking the portfolio performance.

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

The following tables present the Plan's financial instruments carried at fair value on a recurring basis as of May 31, 2012 and May 31, 2011, respectively, and indicate the fair value hierarchy of the valuation techniques that were utilized to determine such fair value, as discussed in Note 1.

	(in thousands)				
	Level 1	Level 2	Level 3	Total	Valuation Technique
Pension investment program:					
Equity securities	$ -	$ 19,331	$ -	$ 19,331	Market
Debt securities	-	17,850	-	17,850	Market
Other	248	7,042	3	7,293	Market
Total at May 31, 2012	$ 248	$ 44,223	$ 3	$ 44,474	

	(in thousands)				
	Level 1	Level 2	Level 3	Total	Valuation Technique
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 at May 31, 2011	$ 300	$ 42,653	$ 3	$ 42,956	

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 and for the period May 31, 2011 to May 31, 2012. There were no realized/unrealized gains/losses, purchases, sales, or net investment income during either period.

The components of medical postretirement benefits as of May 31, 2012 and 2011 are as follows:

	(in thousands)	
	2012	2011
Projected benefit obligation	$ 15,656	$ 14,224
Fair value of plan assets	-	-
Unfunded status	$ (15,656)	$ (14,224)
Accrued post-retirement benefits	$ (15,656)	$ (14,224)
Weighted-average assumptions:		
Discount rate	4.13%	4.94%

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 $1,265,000 and $1,251,000 for the years ended May 31, 2012 and 2011, respectively. Benefits paid totaled $748,000 and $711,000 for the years ended May 31, 2012 and 2011, respectively.

The University allows faculty members that meet specific criteria for eligibility to elect to participate in an ongoing voluntary severance program. The accrued liability for future payments under these programs amounted to $440,000 and $1,039,000 as of May 31, 2012 and 2011, respectively.

NOTE 11 - OPERATING EXPENSE:

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

	(in thousands) 2012	2011
Instruction	$ 149,914	$ 144,639
Research	6,957	7,833
Academic support	45,140	43,452
Student services	46,346	45,642
Institutional support	46,353	43,871
Auxiliary enterprises	66,295	64,179
Total operating expense	$ 361,005	$ 349,616

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2012 and 2011 of $11,056,000 and $11,032,000, 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 Note 11 for the fiscal years ended May 31, 2012 and 2011. Those expenses were allocated to the individual functional categories as follows:

(in thousands) 2012	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	$ 10,033	$ 3,517	$ 7,050
Research	-	129	144
Academic support	1,482	449	832
Student services	4,229	168	1,968
Institutional support	1,852	134	973
Auxiliary enterprises	13,274	3,324	5,619
Operation and maintenance of plant	-	491	1,311
	$ 30,870	$ 8,212	$ 17,897

(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
	$ 30,469	$ 8,567	$ 17,806

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, and has recorded a liability of $272,000 as of May 31, 2012, with regards to unrelated business income reported on IRS Form 990-T.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

During the 2012 fiscal year, the University invested $6,338,000 in twenty-one long-term partnerships which were formed prior to the 2012 fiscal year, bringing its cumulative contributions to the partnerships to $49,650,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of May 31, 2012, the University’s remaining commitments to these twenty-one partnerships total approximately $18,458,000.

The University also committed a total of $3,000,000 to one additional long-term partnership which was formed during the 2012 fiscal year. As of May 31, 2012, the University had invested $243,000 in this partnership. As a result, the University’s remaining commitment to this partnership totals $2,757,000.

As of May 31, 2012, the University’s remaining commitments to all twenty-two partnerships total $21,215,000.

Outstanding commitments related to construction contracts totaled approximately $17,623,000 as of May 31, 2012.

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, 2012 and 2011 and the time periods in which they are expected to be realized are as follows:

	(in thousands) 2012	2011
In one year or less	$ 17,963	$ 17,701
Between one year and five years	8,449	7,987
In more than five years	33	57
Less: Discount	(1,096)	(1,285)
Allowance for doubtful accounts	(6,745)	(6,099)
	$ 18,604	$ 18,361

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 connection with the preparation of the consolidated financial statements and in accordance with the FASB Subsequent Events standard, the University evaluated subsequent events after the balance sheet date of May 31, 2012 through its distribution date of September 24, 2012.

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