FRANCISCAN UNIVERSITY OF STEUBENVILLE AND GOOD VENTURE ENTERPRISES, LLC

Steubenville, Ohio

Combined Financial Statements
For the years ended May 31, 2011 and 2010

and Independent Auditors' Report Thereon

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SCHNEIDER DOWNS

INSIGHT ▪ INNOVATION ▪ EXPERIENCE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Franciscan University of Steubenville
and Good Venture Enterprises, LLC

We have audited the accompanying combined statements of financial position of Franciscan University of Steubenville and Good Venture Enterprises, LLC (collectively, the University) as of May 31, 2011 and 2010 and the related combined statements of activities and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

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

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 19, 2011

Schneider Downs & Co., Inc.
www.schneiderdowns.com

1133 Penn Avenue
Pittsburgh, PA 15222-4205
TEL 412.261.3644
FAX 412.261.4876

41 S. High Street
Suite 2100
Columbus, OH 43215-6102
TEL 614.621.4060
FAX 614.621.4062

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FRANCISCAN UNIVERSITY OF STEUBENVILLE
AND GOOD VENTURE ENTERPRISES, LLC

COMBINED STATEMENTS OF FINANCIAL POSITION

	May 31 2011	May 31 2010
ASSETS		
Cash and cash equivalents	$ 7,336,708	$ 5,905,053
Restricted cash	239,819	588,782
Student accounts receivable, less allowance for doubtful accounts of $65,000 in 2011 and in 2010	400,395	357,858
Contributions receivable, less allowance for doubtful pledges of $306,000 in 2011 and $304,000 in 2010	2,754,476	2,733,834
Other accounts receivable	876,536	391,282
Receivable due from related parties, less allowance of $3,799,000 in 2011 and $2,751,000 in 2010	131,353	955,226
Loans to students, less allowance for doubtful loans of $202,000 in 2011 and in 2010	842,138	872,574
Inventories	538,741	594,156
Prepaid expenses and other assets	1,397,852	1,296,784
Investments	64,993,248	53,271,643
Property, plant and equipment:		
Land and improvements	11,162,405	10,879,717
Buildings	91,937,683	90,020,161
Equipment	8,479,639	8,825,684
Construction in progress	791,383	704,372
	112,371,110	110,429,934
Less - Accumulated depreciation on property, plant and equipment	40,249,563	37,511,969
	72,121,547	72,917,965
Total Assets	$ 151,632,813	$ 139,885,157
LIABILITIES		
Accounts payable and other accrued liabilities	$ 2,625,223	$ 2,360,790
Accrued compensation	3,011,487	2,695,496
Present value of annuities payable	1,227,480	852,338
Student and other deposits	1,368,462	1,048,333
Deferred revenue	2,607,288	2,185,562
Long-term debt:		
Interest-bearing	22,336,923	23,648,079
Noninterest-bearing	348,000	348,000
Government advances for student loans	714,524	715,160
Total Liabilities	34,239,387	33,853,758
NET ASSETS		
Unrestricted	84,401,858	79,237,992
Temporarily restricted	17,038,743	12,035,974
Permanently restricted	15,952,825	14,757,433
Total Net Assets	117,393,426	106,031,399
Total Liabilities And Net Assets	$ 151,632,813	$ 139,885,157

See notes to combined financial statements.

FRANCISCAN UNIVERSITY OF STEUBENVILLE
AND GOOD VENTURE ENTERPRISES, LLC

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 43,850,139	$ -	$ -	$ 43,850,139
Less student aid	(11,737,056)	-	-	(11,737,056)
	32,113,083	-	-	32,113,083
Sales and service of educational activities	689,949			689,949
Government grants	-	725,172	-	725,172
Private gifts and grants	1,835,275	2,518,734	1,151,888	5,505,897
Investment income	326,441	90,775	-	417,216
Endowment income	266,433	342,942	-	609,375
Net realized gains (losses) on operating and endowment investments	1,380,707	640,481	-	2,021,188
Net unrealized gains on operating and endowment investments	3,382,599	2,596,460	-	5,979,059
Other revenue	878,668	116,966	43,504	1,039,138
Auxiliary activities:				
Student Center	317,520	-	-	317,520
Bookstore	2,054,317	-	-	2,054,317
Food Service	4,348,165	-	-	4,348,165
Residence Halls	6,190,678	-	-	6,190,678
Christian Outreach	2,630,973	-	-	2,630,973
Total Auxiliary Activities	15,541,653	-	-	15,541,653
Hotel and restaurant services	2,310,702	-	-	2,310,702
	58,725,510	7,031,530	1,195,392	66,952,432
NET ASSETS RELEASED FROM RESTRICTIONS	2,028,761	(2,028,761)	-	-
Total Revenues, Gains And Other Support	60,754,271	5,002,769	1,195,392	66,952,432
EXPENSES AND OTHER DEDUCTIONS				
Instruction	17,637,611	-	-	17,637,611
Student services	7,631,353	-	-	7,631,353
Institutional support	6,582,216	-	-	6,582,216
Plant operation and maintenance	3,357,204	-	-	3,357,204
Renewal and replacement facilities	159,040	-	-	159,040
Impairment of long-lived assets	-	-	-	-
Other expense	645,707	-	-	645,707
Auxiliary activities:				
Student Center	660,905	-	-	660,905
Bookstore	1,897,233	-	-	1,897,233
Food Service	4,147,852	-	-	4,147,852
Residence Halls	7,942,755	-	-	7,942,755
Christian Outreach	2,559,466	-	-	2,559,466
Total Auxiliary Activities	17,208,211	-	-	17,208,211
Cost of sales from hotel and restaurant services	2,369,063	-	-	2,369,063
	55,590,405	-	-	55,590,405
Changes In Net Assets	5,163,866	5,002,769	1,195,392	11,362,027
NET ASSETS				
Beginning of year	79,237,992	12,035,974	14,757,433	106,031,399
End of year	$ 84,401,858	$ 17,038,743	$ 15,952,825	$ 117,393,426

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 42,019,220	$ -	$ -	$ 42,019,220
(11,035,975)	-	-	(11,035,975)
30,983,245	-	-	30,983,245
722,543	-	-	722,543
-	829,240	-	829,240
2,097,058	1,128,081	1,200,930	4,426,069
409,319	95,855	-	505,174
254,405	319,858	-	574,263
(427,865)	128,114	-	(299,751)
3,188,936	2,222,637	-	5,411,573
931,154	135,666	-	1,066,820
321,358	-	-	321,358
2,053,918	-	-	2,053,918
4,178,813	-	-	4,178,813
5,875,966	-	-	5,875,966
2,583,753	-	-	2,583,753
15,013,808	-	-	15,013,808
2,761,676	-	-	2,761,676
55,934,279	4,859,451	1,200,930	61,994,660
7,548,200	(7,683,453)	135,253	-
63,482,479	(2,824,002)	1,336,183	61,994,660
17,315,964	-	-	17,315,964
7,166,334	-	-	7,166,334
5,602,474	-	-	5,602,474
4,127,368	-	-	4,127,368
399,857	-	-	399,857
350,000	-	-	350,000
355,788	-	-	355,788
478,141	-	-	478,141
2,259,122	-	-	2,259,122
4,742,959	-	-	4,742,959
6,449,986	-	-	6,449,986
3,083,722	-	-	3,083,722
17,013,930	-	-	17,013,930
2,348,608	-	-	2,348,608
54,680,323	-	-	54,680,323
8,802,156	(2,824,002)	1,336,183	7,314,337
70,435,836	14,859,976	13,421,250	98,717,062
$ 79,237,992	$ 12,035,974	$ 14,757,433	$ 106,031,399

See notes to combined financial statements.

FRANCISCAN UNIVERSITY OF STEUBENVILLE
AND GOOD VENTURE ENTERPRISES, LLC

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

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 11,362,027	$ 7,314,337
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,974,326	5,023,356
Loss on disposal of assets	622,434	354,674
Impairment of long-lived assets	-	350,000
Realized and unrealized gains and losses	(8,106,497)	(5,111,822)
Provision for receivables	1,025,057	302,569
Changes in assets and liabilities:		
Student accounts receivable	(42,537)	(121,251)
Contributions receivable	2,294	255,971
Prepaid expenses and other assets	(555,978)	1,452,888
Related-party receivables	(117,870)	253,398
Accounts payable and other accrued liabilities	206,125	(1,315,430)
Accrued compensation	315,991	(369,819)
Other liabilities	1,116,359	(292,431)
Net Cash Provided By Operating Activities	9,801,731	8,096,440
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	6,339,854	4,569,311
Purchases of investments	(10,061,212)	(11,201,154)
(Decrease) increase in accounts payable for property, plant and equipment	(23,634)	80,315
Purchases of property, plant and equipment	(3,788,975)	(4,123,893)
Increase (decrease) in restricted cash	348,963	(313,094)
Disbursements of loans to students	(141,300)	(97,070)
Repayments of loans from students	171,737	128,198
Net Cash Used In Investing Activities	(7,154,567)	(10,957,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	2,337,500
Repayments of long-term debt	(1,215,509)	(4,306,272)
Net Cash Used In Financing Activities	(1,215,509)	(1,968,772)
Net Increase (Decrease) In Cash And Cash Equivalents	1,431,655	(4,829,719)
CASH AND CASH EQUIVALENTS		
Beginning of year	5,905,053	10,734,772
End of year	$ 7,336,708	$ 5,905,053
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,151,000	$ 1,221,000

See notes to combined financial statements.

FRANCISCAN UNIVERSITY OF STEUBENVILLE
AND GOOD VENTURE ENTERPRISES, LLC

NOTES TO COMBINED FINANCIAL STATEMENTS
MAY 31, 2011 AND 2010

NOTE 1 - ORGANIZATION/PRINCIPLES OF COMBINATION

Franciscan University of Steubenville (University) is a private, not-for-profit university offering undergraduate and graduate curricula. Its primary campus is located in Steubenville, Ohio, and it also has a study abroad program in Gaming, Austria. Good Venture Enterprises, LLC (Good Venture) was established in September 1999 to operate certain enterprises whose activities promote Franciscan University of Steubenville's tax-exempt purpose. Those activities may include, but are not limited to, purchasing, constructing, renovating and providing dormitory and social space for students and guests of Franciscan University of Steubenville.

Good Venture HIH, LLC (HIH) is a wholly owned subsidiary of Good Venture, which was created to own and operate the Hotel, Annex and Damon's Clubhouse Restaurant located at 1401 University Boulevard in Steubenville, Ohio. Under the terms of a renewed management agreement, dated March 22, 2010, operations are outsourced to a third party (Operator). The Operator has been engaged to direct the day-to-day operations and activities of the hotel and restaurant and is entitled to a base fee equal to 3% of gross revenues per month. The management agreement specifies that the Operator is to act as an agent of HIH and that the operations of the property be under the ultimate control and supervision of HIH.

On December 18, 2009, the Holiday Inn franchise agreement with Intercontinental Hotel Group was terminated. Effective November 2, 2010, the property entered into a membership agreement with Best Western and now operates as Best Western University Inn Steubenville. During that interim period, the hotel operated independently.

Franciscan University embarked on an initiative in fiscal year 2011 to develop educational courses and programs in a technology-driven online format. A pilot program in Graduate Education was developed in cooperation with Avanti Management Group, LLC, with the first two cohorts of approximately 45 students each participating in the program in the 2010-11 academic year. The University plans to build on this program to offer additional courses and fields of study over the next few years.

The financial statements of Franciscan University of Steubenville and Good Venture have been combined and are hereinafter referred to as the "University" because of ownership held in Good Venture by the University. HIH's financial statements are consolidated into Good Venture. All material intercompany transactions have been eliminated in the combination.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting - The combined financial statements of the University have been prepared on the accrual basis. In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of fund accounting. This is the process by which resources for various purposes are classified into funds that are in accordance with activities or objectives specified. These financial statements, however, have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with accounting principles generally accepted in the United States.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets - Revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

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

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or a portion of the income earned on related investments for general or specific purposes.

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

Income and realized net gains and losses on investments of the endowment are reported as follows:

- As changes in permanently restricted net assets if so restricted by the donor;
- As changes in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the use of the income or gains and losses; and
- As changes in unrestricted net assets in all other cases.

Contributions With Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the satisfaction or expiration of such restrictions.

Cash and Cash Equivalents - The University considers all highly liquid investments with a maturity of six months or less when purchased to be cash equivalents. The University maintains, at various financial institutions, cash that may at times exceed federally insured amounts.

Restricted Cash - The University maintains deposits with financial institutions as required by debt covenants.

Loans to Students - Loans to students are reported at their outstanding principal adjusted for any charge-offs and net of the allowance for loan losses. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the University's loan loss experience, adverse situations that may affect the borrower's ability to repay, and current economic conditions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - The University's investments are composed of the endowment and other investments held for general operating purposes. The University reports these investments at market value in accordance with the provisions of the Not-for-Profit Entities Organizations topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification). The market value of debt and equity securities is based on quoted market prices of public securities markets. Alternative investments, which include absolute return and hedge funds, are carried at the estimated market value provided by the management of the alternative investment partnerships or funds. Limited partnership investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use in estimating a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance subsequent to anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments.

The majority of the alternative investments, which are not readily marketable, are carried at net asset value (NAV) as provided by the investment managers. The University reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the NAVs of the alternative investments. Those estimated NAVs may differ from the fair values that would have been used had a ready market for these securities existed. Due to the level of risk associated with these investment securities, changes in values of investment securities may occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

Inventories - Inventories are stated at the lower of cost or market; cost being determined principally by use of the average-cost method. Inventories consist of books and materials held within the bookstore. HIH's inventories consisting primarily of food and beverages are stated at the lower of cost or market on the first-in, first-out (FIFO) basis.

Prepaid Expenses and Other Assets - Prepaid expenses are stated at cost and amortized over the useful life of the asset.

Property, Plant and Equipment - Land and improvements, buildings and equipment are stated at cost or approximate market value at date of receipt, if acquired by gift. The provision for depreciation has been computed by the straight-line method based upon estimated useful lives. Buildings are typically depreciated over periods between 20 and 50 years, while equipment is depreciated over periods between 5 and 15 years. Based upon the results of a recent campus appraisal and a review of current assets, the estimated useful lives of equipment have been changed to accurately reflect the assets' remaining economic useful lives.

Management reviews the carrying amount of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of an asset to future net undiscounted pre-tax cash flows expected to be generated by the asset. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the related estimated fair value. In 2010, an impairment loss of approximately $350,000 was recognized within the combined statements of activities and changes in net assets. The loss reflects the amount of carrying value in excess of the estimated fair value of the facility.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in Progress - Capitalizable costs incurred on projects that are not in use or ready for use are held in construction in progress. When the asset is ready for use, costs relating thereto are transferred to property and equipment and begin to be depreciated.

Collections and Religious Artifacts - The University's collections include paintings, prints, photographs, sculptures, drawings and watercolors and decorative arts. These items are held for educational, research, scientific, curatorial and other religious purposes. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Items are reflected in equipment in the financial statements at appraised value on the date purchased or contributed.

Annuities - Annuities represent the University's obligation to pay a donor an annual amount, based on the donor's original contribution, over the remaining life of the donor. These annuities are stated at the net present value of the projected future cash flows assuming discount rates of 3% in 2011 and 3.4% in 2010.

Income Taxes - The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is, therefore, exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. The University is also exempt from state income tax under applicable state statutes.

HIH has been organized as an LLC, which is not subject to federal or state income taxes. However, the taxable income or loss from the hotel and restaurant activities of HIH is included in the income tax return of the University. Accordingly, any income from HIH that is unrelated to the exempt purposes of the University is treated as unrelated business income on the University's tax return.

The University follows the relevant accounting guidance relative to uncertainty in income taxes, which prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. The University files information and income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the University is no longer subject to U.S. federal, state and local or non-U.S. examinations by tax authorities for years before 2008.

Subsequent Events - Subsequent events are defined as events or transactions that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through October 19, 2011, the date on which the financial statements were available to be issued.

Reclassifications - Reclassifications have been made to the accompanying combined financial statements for the year ended May 31, 2010 to conform to the current year's presentation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements - In January 2010, the FASB issued an Accounting Standards Update Fair Value Measurements Disclosures to require new disclosure for fair value measurements and provide clarification for existing disclosure requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The adoption of this statement will not materially expand its combined financial statement footnote disclosures. The new disclosures and clarifications are effective for annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll-forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010.

NOTE 3 - INVESTMENTS

Investments of the University at May 31 comprise the following:

	2011		2010	
	Market	Cost	Market	Cost
Cash and money markets	$ 3,091,727	$ 3,080,510	$ 4,019,178	$ 4,010,416
U.S. Treasuries	316,937	316,908	315,836	315,670
Domestic equities	22,340,854	14,621,536	17,097,628	12,289,021
International equities	7,045,370	5,683,863	3,066,485	2,878,695
Bonds, mortgage backed securities and fixed-income funds	20,587,778	18,538,482	18,658,684	17,327,491
Alternative investment funds and partnerships	11,610,582	9,242,451	10,113,832	8,919,882
	$ 64,993,248	$ 51,483,750	$ 53,271,643	$ 45,741,175

The total investment performance for the years ended May 31 was as follows:

	2011	2010
Interest and dividends	1.74%	2.28%
Net realized gains (losses)	3.42%	(0.63)%
Net unrealized gains	10.11%	11.42%
Aggregate return on investments	15.27%	13.07%

NOTE 3 - INVESTMENTS (Continued)

Operating investments are those funds that are used to meet intermediate and long-term cash requirements for operations and funding of various projects. Accordingly, the University invests these funds with an allocation to optimize long-term total return relative to the level of risk appropriate for such operating fund investments. Operating investments at May 31 comprise the following:

	2011	2010
Composition of operating investments, at market value:		
Cash and money markets	$ 2,776,153	$ 2,542,020
U.S. Treasuries	316,937	315,836
Domestic equities	5,318,408	3,820,225
International equities	2,075,303	790,172
Bonds, mortgage backed securities and fixed-income funds	9,298,477	7,125,060
Alternative investment funds and partnerships	5,514,099	4,683,047
Due from (to) endowment	(1,141,588)	1,904,769
	$ 24,157,789	$ 21,181,129

The policies and strategies employed in the management of the endowment are long-term by definition, since they are based on the expectation that the University will operate indefinitely, and, likewise, will continue to provide financial support in perpetuity. Accordingly, the University's investment policy is intended to optimize long-term total return -- income plus capital appreciation -- relative to the level of risk taken. The associated return on investments held within the endowment funds were 19.36% and 14.53% for the years ended May 31, 2011 and 2010, respectively.

Assets of certain endowment funds are maintained by banks and investment managers acting as agents and are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month within which the transaction occurred. Investments at May 31 comprise the following:

	2011	2010
Composition of endowment investments, at market value:		
Cash and money markets	$ 315,574	$ 1,477,158
Domestic equities	17,022,446	13,277,403
International equities	4,970,067	2,276,313
Bonds, mortgage-backed securities and fixed-income funds	11,289,301	11,533,624
Alternative investment funds and partnerships	6,096,483	5,430,785
Due from (to) operating	1,141,588	(1,904,769)
	$ 40,835,459	$ 32,090,514

NOTE 4 - CONTRIBUTIONS

As of May 31, 2011, the University has unconditional promises to receive contributions approximated $3,133,000, which is presented net of a discount for the present value of cash flows of $73,000. Several of these pledges are due over extended periods and are recorded at the net present value of future cash flows. Most unconditional promises are restricted by donors for scholarships and general operating support purposes and are due as follows:

	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 825,180	$ 520,535	$ 1,345,715
One to five years	890,131	894,361	1,784,492
More than five years	3,075	-	3,075
	$ 1,718,386	$ 1,414,896	$ 3,133,282
Unamortized discounts			$ (72,753)
Allowance for doubtful pledges			(306,053)
			$ 2,754,476

Gifts with an aggregate value in excess of $5,000 received from board members, administrators and vendors were approximately $1,280,000 and $953,000 at May 31, 2011 and 2010, respectively. Pledges outstanding from these parties were approximately $1,585,000 and $1,526,000 at May 31, 2011 and 2010, respectively.

NOTE 5 - LONG-TERM DEBT AND REVOLVING CREDIT FACILITY

Long-term, interest-bearing debt at May 31 consists of the following:

	Interest Rate	Outstanding Balance 2011	Outstanding Balance 2010	Principal Payments
1970 Dormitory and Auxiliary Facilities Construction and Refunding Bonds:				
Series B (mature April 1, 2012)	3.375%	$ 27,000	$ 52,000	Ranging from $25,000 in the year ended May 31, 2011 to $27,000 at maturity
Series C (mature April 1, 2017)	3.000%	129,000	148,000	Ranging from $19,000 in the year ended May 31, 2011 to $23,000 at maturity
Series D (mature April 1, 2020)	3.000%	313,000	343,000	Ranging from $30,000 in the year ended May 31, 2011 to $40,000 at maturity
Sub-Total		469,000	543,000	

NOTE 5 - LONG-TERM DEBT AND REVOLVING CREDIT FACILITY (Continued)

	Interest Rate	Outstanding Balance 2011	Outstanding Balance 2010	Principal Payments
Balance Forward		$ 469,000	$ 543,000	
2006 Ohio Higher Educational Facility Revenue Bonds (mature May 1, 2036)	4.000%	17,675,000	18,470,000	Ranging from $795,000 in the year ended May 31, 2011 to $1,020,000 at maturity
2006 Ohio Higher Educational Facility Revenue Bonds Taxable - Series B (mature May 1, 2016)	5.750%	1,925,000	2,250,000	Ranging from $325,000 in the year ended May 31, 2011 to $430,000 at maturity
WesBanco Bank Mortgage note payable (due April 2025)	5.450%	2,226,239	2,329,689	Monthly payments, including principal and interest of $19,135
Total		22,295,239	23,592,689	
Unamortized bond premium		41,684	55,390	
Total long-term debt		$ 22,336,923	$ 23,648,079	

The Series B through D Bonds are secured by a mortgage on the dining hall, the University center, certain dormitories, and by a pledge of the revenues of these facilities. The indentures for the bonds further provide that the University is required to deposit government securities with an aggregate market value of $140,000 and $175,000 into a debt service reserve fund and renewal and replacement fund, respectively. As of May 31, 2011, securities having a market value of $141,000 and $176,000 had been deposited.

In April 2010, HIH refinanced a bridge loan by entering into a long-term mortgage agreement with the financial institution for $2,337,500. The mortgage contains covenants, which require, among other things, HIH to have a debt service reserve equal to 12 monthly payments of principal and interest and to maintain a debt service ratio of 1.25 to 1. Interest accrues on the borrowings at 5.45%. Restricted cash on deposit associated with the covenant as of May 31, 2011 approximated $240,000. The loan balance outstanding at May 31, 2011 was $2,226,239.

In 2006, the University issued revenue bonds through the Ohio Higher Educational Facility Commission; Series A and B for $20,585,000 and $3,415,000, respectively. The bonds are secured by a pledge of facility revenue, a bond reserve requirement equal to the lesser of 125% of the average bond service charges on outstanding principal or 10% of the proceeds from the original sale of bonds, and a bond insurance policy. The bond reserve funds for Series A and B held as of May 31, 2011 had a market value of $1,520,895 and $341,610, respectively, and are included within investments.

NOTE 5 - LONG-TERM DEBT AND REVOLVING CREDIT FACILITY (Continued)

Required principal payments on the long-term debt for each of the next five years ending May 31 and thereafter are:

Years Ending May 31	Amount
2012	$ 1,361,989
2013	1,412,494
2014	1,295,040
2015	1,359,957
2016	1,439,014
Thereafter	15,426,745
	$ 22,295,239

In 1946, the University received a noninterest-bearing loan of $348,000 from the Province of the Most Sacred Heart of Jesus, the founder of the University and the guarantor of the HUD Series A through D Bonds. The loan has no stipulated repayment terms.

Revolving Credit Facility - The University has been extended a line of credit from a financial institution to finance corporate charge accounts. The maximum draw on this facility is $750,000, of which the University borrowed approximately $706,000 and $607,000 at May 31, 2011 and 2010, respectively, which is included in accounts payable and other accrued liabilities in the combined statements of financial position.

NOTE 6 - SERVICES OF THE FRANCISCAN FRIARS

During the years ended May 31, 2011 and 2010, the University paid approximately $892,000 and $874,000, respectively, to the Holy Spirit Friary for the services rendered by the Franciscan Friars, who serve as administrators and instructors of the University. The aggregate amount paid for the services rendered is recorded within various expenditure line items.

NOTE 7 - RETIREMENT PLANS

The University's employees participate in a voluntary contributory retirement plan organized through the Teachers' Insurance and Annuity Association of America (TIAA). Employees electing to participate in the plan are eligible to contribute 5% of their gross salary through payroll deduction after one year of service. Additionally, the University will contribute between 2.5% and 10% based on the number of years of service. The University's contributions to the plan aggregated approximately $1,247,000 and $1,184,000 for the years ended May 31, 2011 and 2010, respectively.

Additionally, employees can participate in a supplemental voluntary contributory retirement plan through TIAA. Employees electing to participate in this plan are eligible to contribute up to 100% of their gross salary, subject to Internal Revenue Service limitations, through payroll deduction immediately upon hire. There are no University contributions to this plan.

NOTE 8 - STUDY ABROAD PROGRAM

The University leases facilities consisting of a dormitory, classrooms and offices for its study abroad program in Gaming, Austria. The landlord is an Austrian foundation that retains full ownership rights and authority over the facilities. Some officers and directors of the University also serve in that capacity for the foundation. The lease commenced in August 1996, and could not be terminated in the first ten years except for acts of war or other extreme circumstances. During 2002, the foundation waived its right to cancel the lease agreement through December 31, 2012. The lease is denominated in a foreign currency, and accordingly, the dollar value of the annual lease commitment fluctuates with the exchange rate and was approximately $952,000 and $964,000 at May 31, 2011 and 2010, respectively.

In addition, the University leases several townhouses for the use of faculty under a noncancelable lease that expires December 31, 2012. Rental expense relating to this property was approximately $145,000 and $178,000 for the years ended May 31, 2011 and 2010, respectively.

Commencing in July 2009, the University has entered into a lease agreement for additional dormitory, classroom and office space. The annual lease, which fluctuates with the exchange rate, was approximately $194,000 and $193,000 at May 31, 2011 and 2010, respectively. The lease agreement expires in July 2014.

Minimum future rental payments relating to these leases based on the exchange rate at May 31, 2011 are as follows:

Years Ending May 31	Amount
2012	$ 1,369,679
2013	314,536
2014	291,152
2015	77,915
2016	69,647
Thereafter	86,883
	$ 2,209,812

In addition, the University has a receivable due from the Austrian foundation at May 31, 2011 of $3,079,049, which represents funds advanced to the foundation for operational purposes to ensure the long-term stability of the study abroad program. The receivable is denominated in a foreign currency. Given the uncertainty of future recoverability of these funds, the University is amortizing the receivable over the period in which the foundation has waived its right to cancel the lease agreement. As of May 31, 2011, the University has fully amortized this balance.

The Austrian foundation has undertaken further renovation and expansion of the facilities, including Tracts VII, VIII and IX. The University entered into an agreement during the 2006-07 fiscal year to provide approximately €1,000,000 to the foundation for interim financing for the project. The outstanding balance of the note is €503,995 ($719,826) and €511,050 ($627,059) as of May 31, 2011 and 2010, respectively, and is recorded within receivable due from related parties. The amount is to be repaid in semiannual installments beginning in November 2009 and ending May 2013 with 5% simple interest. Given the uncertainty of future recoverability of these funds, the University has fully reserved the remaining $719,826 balance as of May 31, 2011. The bad debt expense is included within Institutional Support on the combined statements of activities and changes in net assets.

NOTE 9 - FAIR VALUE MEASUREMENTS

The University implemented the Fair Value Measurements topic of the Codification, which, among other things, requires enhanced disclosures related to assets and liabilities measured at fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Valuations that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 - Valuations that reflect:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Valuations are based upon unobservable inputs. Valuations reflect management's best estimate of what market participants would use in valuing the asset and liabilities at the measurement date.

A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis is as follows:

Investments - Fair value of Level 1 investments is based upon quoted market prices for identical securities traded in active markets that are readily available to the University.

Fair value of Level 2 investments is based upon quoted market prices for similar securities in active markets; for identical or similar assets in inactive markets; and inputs that are derived from observable market data.

The valuation of the University's investments in limited partnerships requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on Level 3 inputs and the long-term nature of such investments. Limited partnership investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use in estimating a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance subsequent to anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments.

Annuities Payable - Annuities are valued based on the estimated annuity payment obligation discounted to present value at current market rates.

NOTE 9 - FAIR VALUE MEASUREMENTS (Continued)

The University deems the carrying amount of cash and cash equivalents, student accounts receivable, contributions receivable, related party receivables, other receivables and accounts payable and other liabilities to approximate their fair value due to the short-term nature of such instruments. The fair value of long-term debt is estimated using discounted cash flows of debt service, based on the University's current incremental borrowing rate for similar types of borrowing arrangements. The estimated fair value based upon current market rates of the University's long-term debt at May 31, 2011 and 2010 was $22,792,598 and $21,063,344, respectively.

The preceding methods may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, although 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 fair value measurement at the reporting date. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The University elected the Fair Value Option for Financial Assets and Financial Liabilities topic of the Codification. The fair value option permits entities to choose to measure eligible items at fair value at specified election dates. The University has selected this option for valuation of contributions receivable and pledges receivable.

Set forth by level, within the fair value hierarchy, the University's financial assets and liabilities that are measured at fair value on a recurring basis as of May 31 are as follows:

	2011			
	Assets and (Liabilities) at Fair Value			
	Level 1	Level 2	Level 3	Total
ASSETS				
Contributions receivable	$ -	$ 2,754,476	$ -	$ 2,754,476
Investments:				
Cash and money markets	2,441,455	650,272	-	3,091,727
U.S. treasuries	-	316,937	-	316,937
Domestic equities	16,414,702	5,926,152	-	22,340,854
International equities	777,403	6,267,967	-	7,045,370
Bonds, mortgage-backed securities, fixed-income funds	-	20,587,778	-	20,587,778
Alternative investments funds and partnerships	-	-	11,610,582	11,610,582
Total investments	19,633,560	33,749,106	11,610,582	64,993,248
LIABILITIES				
Annuities payable	-	-	(1,227,480)	(1,227,480)

NOTE 9 - FAIR VALUE MEASUREMENTS (Continued)

	2010			
	Assets and (Liabilities) at Fair Value			
	Level 1	Level 2	Level 3	Total
ASSETS				
Contributions receivable	$ -	$ 2,733,834	$ -	$ 2,733,834
Investments:				
Cash and money markets	3,372,362	646,816	-	4,019,148
U.S. treasuries	-	315,836	-	315,836
Domestic equities	13,015,267	4,082,362	-	17,097,629
International equities	423,660	2,642,824	-	3,066,484
Bonds, mortgage-backed securities, fixed-income funds	-	18,658,684	-	18,658,684
Alternative investments funds and partnerships	-	-	10,113,832	10,113,832
Total investments	16,811,289	26,346,522	10,113,832	53,271,643
LIABILITIES				
Annuities payable	-	-	(852,338)	(852,338)

A summary of changes in the fair value of the University's Level 3 assets and liabilities for the years ended May 31, 2011 and 2010 is as follows:

	Alternative Investments Funds and Partnerships	Annuities Payable
Balance May 31, 2009	$ 7,156,438	$ (938,324)
Purchases	2,442,994	-
Interest and dividends	-	(19,262)
Annuity payments	-	90,767
Proceeds from sales	(719,968)	-
Net realized gains	63,136	28
Net unrealized gain	1,171,232	14,453
Balance May 31, 2010	$ 10,113,832	$ (852,338)
Purchases	1,715,000	(407,825)
Interest and dividends	-	(23,291)
Annuity payments	-	107,287
Proceeds from sales	(1,500,001)	-
Net realized gains (losses)	107,570	(29,260)
Net unrealized gains (losses)	1,174,181	(22,053)
Balance May 31, 2011	$ 11,610,582	$ (1,227,480)

NOTE 9 - FAIR VALUE MEASUREMENTS (Continued)

The valuation of the University's investments in alternative investments requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on Level 3 inputs, and the long-term nature of such investments. These alternative investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments. The University's alternative investments are considered to be relatively illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if managers return invested capital or distribute proceeds realized from underlying assets. In addition to annual distributions received from the alternative investment funds for the year ended May 31, 2011 withdrawals and distributions on approximately $10,800,000 of the outstanding investment balances can be received by the University based upon written notice and a 60 to 105-day grace period, depending on the fund. The remaining alternative investments do not contain liquidity constraints.

NOTE 10 - NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31 are available for the following purposes:

	2011	2010
Instruction	$ 361,246	$ 331,627
Academic support	42,598	34,418
Student services	1,460,917	373,339
Institutional support	8,308,179	5,722,319
Plant operation and maintenance	825,344	669,552
Christian outreach	348,110	298,528
Scholarships	4,562,251	3,558,304
Student loans	95,124	92,056
Annuity payments	628,738	417,281
General purposes of the University	406,235	538,550
	$ 17,038,743	$ 12,035,974

NOTE 10 - NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS (Continued)

Net assets released from temporary donor restrictions by satisfying the restricted purposes or time restrictions at May 31 are as follows:

	2011	2010
Student aid	$ 1,445,824	$ 1,613,361
Capital additions	27,831	5,286,456
Auxiliary activities	84,089	133,906
Institutional support	471,017	658,767
	$ 2,028,761	$ 7,692,490

NOTE 11 - NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, reflected below, are restricted to investment in perpetuity. The income from these assets is expendable to support the activities within each category, and at May 31, is as follows:

	2011	2010
Instruction	$ 841,279	$ 849,823
Institutional support	373,451	451,663
Scholarships	12,361,489	11,206,526
Student loans	25,095	28,008
Christian outreach	2,351,511	2,221,413
	$ 15,952,825	$ 14,757,433

NOTE 12 - ENDOWMENT

The University adopted the provisions of the Endowments of Not-for-profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds topic of the Codification. The topic provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the UPMIFA and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The University's endowment consists of approximately 150 individual funds established for a variety of purposes, including donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 12 - ENDOWMENT (Continued)

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts 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 UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- Economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policy of the University

Endowed net assets at May 31 consist of the following:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (392,833)	$ 9,390,737	$ 15,952,825	$ 24,950,729
Board-designated endowment funds	15,976,812	-	-	15,976,812
Total endowed net assets	$ 15,583,979	$ 9,390,737	$ 15,952,825	$ 40,927,541

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (439,298)	$ 5,942,613	$ 14,757,433	$ 20,620,748
Board-designated endowment funds	12,632,985	-	-	12,632,985
Total endowed net assets	$ 12,193,687	$ 5,942,613	$ 14,757,433	$ 32,893,733

NOTE 12 - ENDOWMENT (Continued)

Changes in endowment net assets for the years ended May 31 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2009	$ 10,398,427	$ 3,572,964	$ 13,421,250	$ 27,392,641
Investment return:				
Investment income	254,405	319,858	-	574,263
Net realized gains	138,914	128,114	-	267,028
Net unrealized gains	1,405,660	2,237,090	135,253	3,778,003
Total investment return	1,798,979	2,685,062	135,253	4,619,294
Contributions	-	4,000	1,200,930	1,204,930
Appropriation of endowment assets for expenditure	(3,719)	(319,413)	-	(323,132)
Endowment net assets, May 31, 2010	12,193,687	5,942,613	14,757,433	32,893,733
Investment return:				
Other revenue	-	-	43,504	43,504
Investment income	266,433	342,942	-	609,375
Net realized gains	496,561	640,481	-	1,137,042
Net unrealized gains	1,631,567	2,574,407	-	4,205,974
Total investment return	2,394,561	3,557,830	43,504	5,995,895
Contributions	-	215,950	1,151,888	1,367,838
Transfers to create board-designated funds	1,000,000	-	-	1,000,000
Appropriation of endowment assets for expenditure	(4,269)	(325,656)		(329,925)
Endowment net assets, May 31, 2011	$ 15,583,979	$ 9,390,737	$ 15,952,825	$ 40,927,541

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets approximated $393,000 as of May 31, 2011 and $440,000 as of May 31, 2010. These deficiencies resulted from extraordinary market conditions that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets until such deficiency is fully restored.

NOTE 12 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

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 the purchasing power of the endowment assets. Endowment assets include donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period 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, net of spending, will grow the aggregate portfolio value at or above the rate of inflation over the funds' investment horizon.

Strategies Employed for Achieving Objectives

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 emphasis on investments in equities, bonds and absolute return strategies in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating a spending value to support the annual financial needs of the University. However, this spending value will not exceed 5% of the rolling three-year average of the fund. In the fiscal years ended May 31, 2011 and 2010, interest and dividend earnings only on the donor-designated endowment are appropriated for spending. In establishing this policy, the University considered the expected return on its endowment. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to or greater than the annual rate of inflation over the funds' investment horizon. Additional real growth will be provided through new gifts and any excess investment return.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Guaranteed Access to Education Program (GATE) is a private subsidized educational loan program designed specifically to meet the educational costs of students attending participating accredited institutions. GATE loans must be repaid by borrowers over a period that typically extends 13 years after graduation. The loans are originated and underwritten by Bank of America. National Collegiate Trust (NCT) purchases the pool of promissory notes from the lender (Bank of America) and finances the loans through the issuance of bonds. Each participating school is required to be a member of NCT. State Street Bank and Trust Company holds legal title to the GATE notes as Indenture Trustee for NCT.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

As a participating member of the trust, the University was required to make a noncash pledge to protect against student defaults. The University's maximum obligation cannot exceed between 30% and 40% of the total loans in repayment, depending on the specific GATE program. The University's maximum pledge obligation at May 31, 2011 and 2010 was $214,742 and $301,411, respectively. Therefore, the University has recorded a liability of $214,743 and $301,434 for loans classified as delinquent or in default status as of May 31, 2011 and 2010, respectively, which is included in accounts payable and other accrued liabilities on the University's combined statements of financial position.

The University is committed to pay $2,553,000 to various builders in connection with open projects on campus as of May 31, 2011. Additionally, as of May 31, 2011, the University has committed to invest an additional $800,000 in a Natural Resources Investment Fund.

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