# OHIO WESLEYAN UNIVERSITY
# AND SUBSIDIARY

## CONSOLIDATED FINANCIAL REPORT

## JUNE 30, 2011 and 2010

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARY

CONTENTS

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To the Board of Trustees
Ohio Wesleyan University
Delaware, Ohio

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Ohio Wesleyan University and subsidiary as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Ohio Wesleyan University and subsidiary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Wesleyan University and subsidiary as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Maloney + Novotny LLC

Cleveland, Ohio
December 20, 2011

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 619,403 | $ 3,195,989 |
| Short-term investments | - | 2,669,873 |
| Accounts receivable: | | |
| Students, net | 895,986 | 832,575 |
| Grants | 2,069,252 | 2,497,088 |
| Other | 573,917 | 576,309 |
| Total accounts receivable | 3,539,155 | 3,905,972 |
| Pledges receivable, net | 12,644,125 | 4,722,145 |
| Student loans receivable, net | 6,158,165 | 6,076,724 |
| Inventories and prepaid expenses | 371,927 | 904,799 |
| Investments | 198,937,634 | 173,013,312 |
| Interests in trusts | 4,423,958 | 5,244,758 |
| Land, buildings and equipment, net | 106,909,545 | 90,670,152 |
| Construction in progress | 1,951,738 | 11,935,455 |
| Bond issue costs, net | 267,851 | 294,698 |
| Total assets | $335,823,501 | $302,633,877 |

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable | $ 4,014,084 | $ 4,314,622 |
| Accrued compensation | 4,028,670 | 6,088,376 |
| Deferred income and deposits | 3,407,315 | 4,251,397 |
| Other accrued liabilities | 1,368,511 | 1,411,222 |
| Fair value of interest rate swap | 726,805 | 693,500 |
| Bonds payable | 26,583,759 | 28,569,471 |
| Notes payable | 2,728,926 | - |
| Postretirement benefits other than pensions | 19,769,420 | 22,387,864 |
| Accrued pension liability | 228,272 | 556,956 |
| Annuities and unitrusts payable | 2,241,914 | 1,982,377 |
| Advances from federal government for student loans | 3,504,823 | 3,455,155 |
| Total liabilities | 68,602,499 | 73,710,940 |
| Net assets: | | |
| Unrestricted | 60,616,901 | 54,067,956 |
| Temporarily restricted | 73,022,099 | 50,932,995 |
| Permanently restricted | 133,582,002 | 123,921,986 |
| Total net assets | 267,221,002 | 228,922,937 |
| Total liabilities and net assets | $335,823,501 | $302,633,877 |

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Operating revenue, gains and other support: | | | | |
| Tuition and fees | $ 65,246,283 | | | $ 65,246,283 |
| Less: University funded financial aid | (29,275,475) | | | (29,275,475) |
| Financial aid from outside sources | (6,565,387) | | | (6,565,387) |
| Net tuition and fees | 29,405,421 | | | 29,405,421 |
| Gifts, pledges and bequests | 7,859,199 | $ 1,276,228 | $ 9,091,570 | 18,226,997 |
| Investment income on endowment | 1,129,352 | 1,410,695 | 79,375 | 2,619,422 |
| Other investment income | 131,975 | 138 | 505 | 132,618 |
| Gains on investments used for current operations | 2,012,334 | 4,753,933 | 101,433 | 6,867,700 |
| Government grants | 912,255 | 1,697,080 | | 2,609,335 |
| Other income | 1,173,923 | 1,259,927 | 192,794 | 2,626,644 |
| Sales and services of auxiliary enterprises | 15,282,346 | | | 15,282,346 |
| Net assets released from restrictions | 10,514,227 | (10,514,227) | | - |
| Total operating revenue, gains and other support | 68,421,032 | (116,226) | 9,465,677 | 77,770,483 |
| Operating expenses: | | | | |
| Instruction | 24,138,383 | | | 24,138,383 |
| Student services | 11,459,788 | | | 11,459,788 |
| Academic support, including library | 6,698,816 | | | 6,698,816 |
| Auxiliary enterprises | 11,413,776 | | | 11,413,776 |
| Management and general | 7,594,835 | | | 7,594,835 |
| Fundraising | 4,155,129 | | | 4,155,129 |
| Public services | 816,891 | | | 816,891 |
| Research | 626,703 | | | 626,703 |
| Total operating expenses | 66,904,321 | | | 66,904,321 |
| Net increase from operations | 1,516,711 | (116,226) | 9,465,677 | 10,866,162 |
| Nonoperating revenues and expenses: | | | | |
| Gains on investments in excess of amount designated for current operations | 1,292,044 | 22,776,458 | | 24,068,502 |
| Postretirement obligation adjustment | 2,618,444 | | | 2,618,444 |
| Pension-related charges other than net periodic pension cost | 328,684 | | | 328,684 |
| Change in fair value of interest rate swap | (33,305) | | | (33,305) |
| Actuarial adjustment of split-interest agreements | | (1,015,139) | 194,339 | (820,800) |
| Matured split interest agreements | 826,367 | 444,011 | | 1,270,378 |
| Change in net assets | 6,548,945 | 22,089,104 | 9,660,016 | 38,298,065 |
| Net assets, beginning of year | 54,067,956 | 50,932,995 | 123,921,986 | 228,922,937 |
| Net assets, end of year | $ 60,616,901 | $ 73,022,099 | $133,582,002 | $267,221,002 |

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Operating revenue, gains and other support: | | | | |
| Tuition and fees | $ 62,929,464 | | | $ 62,929,464 |
| Less: University funded financial aid | (27,380,017) | | | (27,380,017) |
| Financial aid from outside sources | (5,872,416) | | | (5,872,416) |
| Net tuition and fees | 29,677,031 | | | 29,677,031 |
| Gifts, pledges and bequests | 5,456,826 | $ 1,240,557 | $ 2,014,462 | 8,711,845 |
| Investment income on endowment | 1,152,882 | 1,543,198 | 142,686 | 2,838,766 |
| Other investment income | 184,996 | | 464 | 185,460 |
| Gains on investments used for current operations | 1,684,327 | 4,036,618 | 125,615 | 5,846,560 |
| Government grants | 2,581,783 | 361,260 | | 2,943,043 |
| Other income | 1,937,010 | 449,790 | 23,620 | 2,410,420 |
| Sales and services of auxiliary enterprises | 14,795,557 | | | 14,795,557 |
| Net assets released from restrictions | 17,355,937 | (17,355,937) | | - |
| Total operating revenue, gains and other support | 74,826,349 | (9,724,514) | 2,306,847 | 67,408,682 |
| Operating expenses: | | | | |
| Instruction | 22,975,705 | | | 22,975,705 |
| Student services | 10,648,070 | | | 10,648,070 |
| Academic support, including library | 5,753,842 | | | 5,753,842 |
| Auxiliary enterprises | 12,593,854 | | | 12,593,854 |
| Management and general | 6,824,682 | | | 6,824,682 |
| Fundraising | 3,967,427 | | | 3,967,427 |
| Public services | 789,010 | | | 789,010 |
| Research | 248,194 | | | 248,194 |
| Total operating expenses | 63,800,784 | | | 63,800,784 |
| Net increase (decrease) from operations | 11,025,565 | (9,724,514) | 2,306,847 | 3,607,898 |
| Nonoperating revenues and expenses: | | | | |
| Gains on investments in excess of amount designated for current operations | 890,740 | 14,151,108 | | 15,041,848 |
| Postretirement obligation adjustment | (3,779,089) | | | (3,779,089) |
| Pension-related charges other than net periodic pension cost | (271,100) | | | (271,100) |
| Change in fair value of interest rate swap | (693,500) | | | (693,500) |
| Actuarial adjustment of split-interest agreements | | 705,818 | (569,093) | 136,725 |
| Change in net assets | 7,172,616 | 5,132,412 | 1,737,754 | 14,042,782 |
| Net assets, beginning of year | 46,895,340 | 45,800,583 | 122,184,232 | 214,880,155 |
| Net assets, end of year | $ 54,067,956 | $ 50,932,995 | $123,921,986 | $228,922,937 |

The accompanying notes are an integral part of these financial statements.

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 38,298,065 | $ 14,042,782 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 3,054,813 | 2,751,954 |
| Realized and unrealized gains on investments | (30,936,202) | (20,888,408) |
| Contributions, net of pledges, for permanently restricted purposes | (2,979,319) | (2,150,831) |
| Income (loss) restricted for long-term investment | 973,202 | (778,646) |
| Change in fair value of interest rate swap | 33,305 | 693,500 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 366,817 | (428,158) |
| (Increase) decrease in pledges receivable | (7,921,980) | 3,811,625 |
| Increase in student loans receivable | (81,441) | (278,176) |
| Decrease (increase) in inventories and prepaid expenses | 532,872 | (108,814) |
| Decrease (increase) in interests in trusts | 820,800 | (136,725) |
| Decrease in accounts payable | (300,538) | (32,805) |
| (Decrease) increase in accrued compensation | (2,059,706) | 170,231 |
| Decrease in deferred income and deposits | (844,082) | (736,006) |
| Decrease in other accrued liabilities | (42,711) | (277,685) |
| (Decrease) increase in postretirement benefits other than pensions | (2,618,444) | 3,779,089 |
| (Decrease) increase in accrued pension liability | (328,684) | 271,100 |
| Increase in annuities and unitrusts payable | 259,537 | 107,156 |
| Increase in advances from federal government for student loans | 49,668 | 43,959 |
| Net cash used in operating activities | (3,724,028) | (144,858) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of land, buildings and equipment | (9,283,642) | (11,386,825) |
| Sales of securities, net | 5,011,880 | 3,167,857 |
| Net cash used in investing activities | (4,271,762) | (8,218,968) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions, net of pledges, for permanently restricted purposes | 2,979,319 | 2,150,831 |
| (Loss) income restricted for long-term investment | (973,202) | 778,646 |
| Borrowings on notes payable | 2,728,926 | - |
| Costs of bonds issued | - | (170,500) |
| Bonds issued | - | 24,000,000 |
| Payments on bonds payable | (1,985,712) | (21,191,216) |
| Net cash provided by financing activities | 2,749,331 | 5,567,761 |
| NET DECREASE IN CASH AND SHORT TERM INVESTMENTS | (5,246,459) | (2,796,065) |
| CASH AND SHORT TERM INVESTMENTS AT BEGINNING OF YEAR | 5,865,862 | 8,661,927 |
| CASH AND SHORT TERM INVESTMENTS AT END OF YEAR | $ 619,403 | $ 5,865,862 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | $ 1,076,692 | $ 893,939 |

The accompanying notes are an integral part of these financial statements.

**Note 1. Significant Accounting Policies**

A. Organization – Ohio Wesleyan University (the University) is an independent, liberal arts institution of higher education offering various bachelor degree academic programs. The University derives its income from student tuition, gifts and grants, investment income, operation of residence halls and various related activities. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America for such institutions. Significant policies are summarized below.

B. Basis of Consolidation – The assets and liabilities of O.W.U. Properties, Inc., a for-profit subsidiary of the University, have been included in the accompanying consolidated financial statements (Note 6). All intercompany accounts have been eliminated in consolidation.

C. Basis of Presentation – The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Assets and liabilities presented in the consolidated statements of financial position are recorded in order of liquidity or nearness to conversion to cash. The University has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted based upon the existence or absence of donor-imposed restrictions as follows:

*Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

*Temporarily Restricted* – Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

*Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, donors of these assets permit the University to use all or part of the income earned on these assets. Such assets primarily include the University's permanent endowment funds.

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. Expiration of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another is reported as reclassifications between the applicable classes of net assets.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at the time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

**Note 1. Significant Accounting Policies (Continued)**

C. Basis of Presentation (Continued)

The University follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same period as received as temporarily restricted support.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets that the donor stipulates are to be used to acquire land, building and equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

The University has evaluated all subsequent events through December 20, 2011, which is the date the consolidated financial statements were available to be issued.

D. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Concentrations of Credit Risk – Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, investments and student accounts and notes receivable. The University places its temporary cash investments with various financial institutions. Concentration of credit risk for investments is limited by the University's policy of asset allocation among several investment managers with different investment types and philosophies. Concentration of credit risk for student accounts and notes receivable is limited due to the large base of accounts and geographic diversification.

F. Cash and Cash Equivalents – Cash and cash equivalents include amounts on deposit with various financial institutions, including interest-bearing demand deposit accounts, which, at times, may exceed federally insured amounts. Cash equivalents also include all U.S. Government obligations, commercial paper and corporate notes with original maturities of three months or less, except those held for long-term investment, which are classified with investments.

G. Short-Term Investments – The University invests in money market funds and short-term certificates of deposit, generally due within one year.

H. Student Accounts Receivable – The University has provided an allowance for uncollectible accounts receivable. Management estimates the allowance based on its review of delinquent accounts and an assessment of the University's historical evidence of collections. The allowance was $720,000 and $620,000 at June 30, 2011 and 2010, respectively.

I. Student Loans Receivable – The University participates with the U.S. Department of Education in the Federal Perkins Loan Program for the purpose of granting low interest loans to students demonstrating financial need. After a student's graduation or withdrawal, Perkins loans are to be repaid over a maximum of ten years. The allowance for uncollectible student loans was $400,000 at June 30, 2011 and 2010.

**Note 1. Significant Accounting Policies (Continued)**

I. Student Loans Receivable (Continued)

Perkins funds are ultimately refundable to the U.S. Government to the extent funds are available from the program. Consequently, these funds are shown as a liability on the statements of financial position. The interest rates charged on substantially all Federal Perkins loans receivable are fixed by the U.S. Department of Education. The interest rates charged on University loans receivable are fixed by the University and do not fluctuate with market conditions.

J. Inventories – The carrying value of inventories approximates cost, under the first-in, first-out method, not in excess of market.

K. Fair Value of Financial Instruments – The University has disclosed fair value information about financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other evaluation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Due to their short-term nature, the carrying values of cash and cash equivalents, receivables, accounts payable and other accrued expenses reported in the accompanying statements of financial position approximate their fair value. The carrying value of the University's long-term debt is based on the University's current incremental borrowing rates for similar types of borrowing arrangements, which approximate fair value.

The carrying value of the University's investments approximates their fair value in accordance with the Fair Value Measurements standards, as defined by accounting principles generally accepted in the United States of America. These standards establish a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements:

Level 1 – Quoted market prices in active markets for identical assets and liabilities.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs in which little or no market data exists.

The asset's or liability's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement.

The following tables set forth by level the University's assets and liabilities that are accounted for at a fair value on a recurring basis as of June 30, 2011 and 2010:

**Note 1. Significant Accounting Policies (Continued)**

K. Fair Value of Financial Instruments (Continued)

| | 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value Total |
| Assets: | | | | |
| Investments | | | | |
| International equities | $ 9,801,755 | $ 39,161,125 | | $ 48,962,880 |
| Domestic equities | 26,701,825 | 20,408,369 | | 47,110,194 |
| Hedge/absolute return funds | | | $ 33,359,495 | 33,359,495 |
| Fixed income | 39,447,315 | 1,417,718 | | 40,865,033 |
| Venture capital | | | 14,075,552 | 14,075,552 |
| Real estate investment trusts | 4,433,300 | | 7,253,929 | 11,687,229 |
| Cash equivalents | 1,498,222 | | | 1,498,222 |
| Other | 379,117 | | 11,103 | 390,220 |
| U.S. Government securities | 988,809 | | | 988,809 |
| | 83,250,343 | 60,987,212 | 54,700,079 | 198,937,634 |
| Interest in trusts | | | 4,423,958 | 4,423,958 |
| Liabilities: | | | | |
| Interest rate swap | | 726,805 | | 726,805 |

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value Total |
| Assets: | | | | |
| Short-term investments | $ 2,669,873 | | | $ 2,669,873 |
| Investments | | | | |
| International equities | 7,180,950 | $ 31,291,387 | | 38,472,337 |
| Domestic equities | 20,836,740 | 15,655,492 | | 36,492,232 |
| Hedge/absolute return funds | | | $ 28,416,685 | 28,416,685 |
| Fixed income | 39,970,283 | 1,417,718 | | 41,388,001 |
| Venture capital | | | 12,639,471 | 12,639,471 |
| Real estate investment trusts | 3,321,532 | | 7,804,838 | 11,126,370 |
| Cash equivalents | 3,196,984 | | | 3,196,984 |
| Other | 367,513 | | 11,096 | 378,609 |
| U.S. Government securities | 902,623 | | | 902,623 |
| | 75,776,625 | 48,364,597 | 48,872,090 | 173,013,312 |
| Interest in trusts | | | 5,244,758 | 5,244,758 |
| Liabilities: | | | | |
| Interest rate swap | | 693,500 | | 693,500 |

**Note 1. Significant Accounting Policies (Continued)**

K. Fair Value of Financial Instruments (Continued)

*Investments* – The University invests in cash and cash equivalents, fixed income, marketable debt and equities and other securities with quoted prices in active markets that are considered to be Level 1 inputs. Any investments with underlying holdings classified as Level 1 but legally structured with limited redemption rights (most limited partnerships and master trusts) have been designated as Level 2 assets. In addition, the University has a percentage of its investments in alternative investments that are valued at Level 2 and Level 3. Level 2 alternative investment inputs include quoted prices for similar assets in active markets and inputs that are derived principally from or corroborated by observable market data. A portion of the University's investments are valued at Level 3 because of unobservable inputs and use of significant management judgment. This includes hedge funds, private equities and real assets structured within limited partnerships and/or off-shore funds, which are based on valuations provided by external investment managers and the manager's third party administrators.

*Interests in trusts* – Interests in trusts include contributions receivable from lead and remainder trusts and are recorded at the present value of the projected net future cash flows to be received, based on current market interest rates. This type of asset has no readily determinable exit price due to legal constraints and, therefore, is considered to be a Level 3 input.

*Interest rate swap* – The fair value of the interest rate swap is based upon the difference between the agreement's fixed rate (3.285%) and the floating rate (65% of 1-month LIBOR plus 130 basis points) for the duration of the swap agreement; values while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument and the resulting fair values are shown as Level 2 inputs.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions/ Purchases | Distributions | Realized and Unrealized Gains (Losses) | Ending Balance |
| Hedge/absolute return funds | $28,416,685 | | | $ 4,942,810 | $33,359,495 |
| Venture capital | 12,639,471 | $ 1,900,000 | $ (3,078,324) | 2,614,405 | 14,075,552 |
| Real estate investment trusts | 7,804,838 | | | (550,909) | 7,253,929 |
| Other | 11,096 | | | 7 | 11,103 |
| Interest in trusts | 5,244,758 | | (1,270,378) | 449,578 | 4,423,958 |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions/ Purchases | Distributions | Realized and Unrealized Gains (Losses) | Ending Balance |
| Hedge/absolute return funds | $22,631,787 | $ 3,694,962 | | $ 2,089,936 | $28,416,685 |
| Venture capital | 10,525,031 | 1,703,500 | $ (874,412) | 1,285,352 | 12,639,471 |
| Real estate investment trusts | 3,695,987 | | | 4,108,851 | 7,804,838 |
| Other | 590,572 | | | (579,476) | 11,096 |
| Interest in trusts | 5,108,033 | 84,963 | (468,041) | 519,803 | 5,244,758 |

**Note 1. Significant Accounting Policies (Continued)**

L. Investments – Investments are carried at fair market value. Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value based on quoted market prices. Alternative investments are recorded based on estimated fair values. Methods for determining estimated fair values include discounted cash flows and estimates provided by fund trustees and general partners. The estimated fair value of certain of these investments is based on valuations provided by external investment managers, adjusted for cash receipts, disbursements and significant known changes in market values of publicly held securities held in the portfolio. The University considers the carrying values of these investments to be a reasonable estimate of fair value. Because these investments are not readily marketable and may be subject to withdrawal restrictions, their estimated value is subject to uncertainty and, therefore, may differ from the values that would have been used had a ready market for such investments existed.

Alternative investments include certain interests in international equities, hedge/absolute return, venture capital funds and real estate investment trusts. The University invests in limited partnerships and co-mingled vehicles, some of which employ traditional strategies (long only) in readily marketable securities (liquid equities or bonds traded on exchanges) and others of which employ less traditional strategies (long and short equity or fixed income and other hedging strategies) that may include the use of options, futures and other derivative instruments.

Realized gains and losses represent the difference between the proceeds on sale of investments and their cost when acquired or fair value when donated. Investment return includes interest, dividends and both realized and unrealized gains and losses. In those cases where a donor has placed restrictions on the use of net appreciation, such appreciation is reported as part of either temporarily restricted or permanently restricted net assets based on donor restrictions.

The University's endowment funds consist of assets which are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains accumulated by these funds may be used to support operations unless temporarily or permanently restricted by the donor or by law.

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

M. Land, Buildings, Equipment and Depreciation – The carrying value of land, buildings, equipment and other properties is stated at cost or appraised value at date of receipt as gifts. The University capitalizes additions and major replacements of plant and equipment. The University provides for depreciation on the straight-line method over the estimated useful lives summarized in the following table:

| | |
|---|---|
| Buildings and building improvements | 20-100 years |
| Land improvements | 15 years |
| Equipment | 5-10 years |
| Vehicles and office equipment | 3-10 years |

**Note 1. Significant Accounting Policies (Continued)**

N. Unamortized Bond Issue Costs – Bond issue costs are amortized on a straight-line basis over the life of the bonds.

O. Split Interest Agreements – The University's split interest agreements with donors consist of irrevocable charitable lead and remainder trusts, charitable gift annuities and life income contracts for which the University is either the remainder beneficiary or one of several remainder beneficiaries. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for split-interest agreements are recognized at the dates the agreements are established. Revenues are recorded at fair value, net of the present value of the estimated future payments to be made to the beneficiaries. The present value of payments to beneficiaries under split interest agreements has been calculated using actuarial estimates of life expectancies and discount rates ranging from 2.0% to 10.0% at June 30, 2011 and 2.8% to 10.0% at June 30, 2010.

Assets neither in the possession nor under the control of the University and to which the University has no ultimate claim on the corpus have not been included in the consolidated financial statements. However, pursuant to donors' wishes, income derived from these resources has been included as additions to temporarily restricted net assets in the consolidated statements of activities, as it is received.

P. Deferred Income and Deposits – Deferred income and deposits represent cash received from students for the following fiscal year but not earned, unearned grant revenue and other deposits.

Q. Self Insurance – The University has elected to act as a self-insurer for certain costs related to employee health benefit programs. Costs resulting from non-insured losses are charged to expense when incurred, and the University has an established reserve for claims incurred but not yet paid. The University has insurance coverage which limits its exposure for individual claims and which limits the aggregate exposure to approximately $374,800 per month.

R. Art Collections – The University maintains a collection of artwork in its Humphreys Art Hall. Due to the difficulty in establishing a value for collection pieces donated to the University, these assets are not recorded in the consolidated financial statements. Collection purchases are expensed as purchased. The University provides a clean, secure and stable environment for its permanent collections. The artwork is given reasonable care towards its preservation.

S. Federal Income Tax – The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The University recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the University, the continued tax-exempt status of bonds issued by the University and various positions related to potential sources of unrelated taxable income. The University believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

**Note 1. Significant Accounting Policies (Continued)**

S. Federal Income Tax (Continued)

As of June 30, 2011, the University's income tax years from 2007 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

T. Conditional Asset Retirement Obligations – The University is required to recognize a liability for a conditional asset retirement obligation. Management has considered its legal obligations to perform an asset retirement analysis on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the University may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2011 and 2010.

U. Reclassifications – Certain reclassifications of 2010 amounts have been made to conform to the 2011 presentation.

**Note 2. Investments**

The University pools certain assets of permanent endowment, quasi-endowment, annuity and life income funds on a market value basis. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the beginning of the calendar quarter within which the transaction takes place, except for assets which are separately invested due to specific donor restrictions.

The composition of investments is set forth in the following table:

| | June 30, 2011 | | June 30, 2010 | |
|---|---|---|---|---|
| | Market | Cost | Market | Cost |
| International equities | $ 48,962,880 | $ 40,927,579 | $ 38,472,337 | $ 39,524,337 |
| Domestic equities | 47,110,194 | 46,826,543 | 36,492,232 | 46,504,109 |
| Hedge/absolute return funds | 33,359,495 | 18,475,479 | 28,416,685 | 18,659,491 |
| Fixed income | 40,865,033 | 40,152,117 | 41,388,001 | 40,333,068 |
| Venture capital | 14,075,552 | 12,118,897 | 12,639,471 | 11,774,594 |
| Real estate investment trusts | 11,687,229 | 11,599,535 | 11,126,370 | 11,768,385 |
| Cash equivalents | 1,498,222 | 1,498,222 | 3,196,984 | 3,196,984 |
| Other | 390,220 | 390,220 | 378,609 | 378,609 |
| U.S. Government securities | 988,809 | 924,664 | 902,623 | 833,951 |
| Total investments | $ 198,937,634 | $ 172,913,256 | $ 173,013,312 | $ 172,973,528 |

A portion of the University's investments in international equities and real estate investment trusts are carried in the form of interests in private commingled investment funds. Such commingled investment funds represented $48,962,880 and $38,472,337 of international equities and $11,687,229 and $11,126,370 of real estate investment trusts at June 30, 2011 and 2010, respectively.

The University had hedge/absolute return funds in the amounts of $33,359,495 and $28,416,685 as of June 30, 2011 and 2010, respectively. The University's hedge/absolute return funds include investments in funds-of-funds which employ various investment strategies including long/short equity, long/short fixed income, commodity and foreign currency futures, swaps and other derivative instruments.

**Note 2. Investments (Continued)**

The University had invested in $14,075,552 and $12,639,471 of venture capital funds-of-funds as of June 30, 2011 and 2010, respectively. The University's venture capital funds-of-funds invest in other venture capital funds, which invest in private securities in a variety of industries.

Investments in venture capital funds-of-funds are typically organized as limited partnerships. A unique characteristic of these funds is that the investment manager requests (or "calls") capital commitments from the investors as investment opportunities arise and distributes capital as investments are liquidated. Capital calls are typically made by the investment manager during years 1-5 of a fund's life while the majority of capital distributions do not occur until years 8-10 of a fund's life. At June 30, 2011, the University has committed to invest additional funds in limited partnership investments in the amount of approximately $6,400,000, at the direction of the general partners.

The composition of investment return is as follows:

| | Years Ended June 30 2011 | 2010 |
|---|---|---|
| Investment income (interest and dividends) | $ 2,619,422 | $ 2,838,766 |
| Realized and unrealized gains on investments | 30,936,202 | 20,888,408 |
| Total investment return | 33,555,624 | 23,727,174 |
| Investment return designated for current operations | 9,487,122 | 8,685,326 |
| Non-operating investment return | $24,068,502 | $15,041,848 |

**Note 3. Pledges Receivable**

As of June 30, 2011 and 2010, the University had received unconditional promises totaling $15,323,424 and $5,762,627, respectively, on which management has recorded an allowance for uncollectible promises of $1,389,123 and $554,163, respectively. The unconditional promises are intended primarily for endowed scholarships and investment in plant and are due as follows:

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Temporarily Restricted Plant | Temporarily Restricted Other | Permanently Restricted | Total |
| Less than one year | $ 449,457 | $ 48,928 | $ 1,056,310 | $ 1,554,695 |
| One to five years | 5,489,170 | 1,227,420 | 6,756,859 | 13,473,449 |
| More than five years | 63,670 | - | 231,610 | 295,280 |
| | 6,002,297 | 1,276,348 | 8,044,779 | 15,323,424 |
| Less allowance | (553,284) | (122,742) | (713,097) | (1,389,123) |
| Less discount | (504,524) | (106,812) | (678,840) | (1,290,176) |
| | $ 4,944,489 | $ 1,046,794 | $ 6,652,842 | $12,644,125 |

## Note 3. Pledges Receivable (Continued)

| | June 30, 2010 | | | |
|---|---|---|---|---|
| | Temporarily Restricted Plant | Temporarily Restricted Other | Permanently Restricted | Total |
| Less than one year | $ 72,677 | $ 102,551 | $ 23,154 | $ 198,382 |
| One to five years | 1,810,516 | 2,147,668 | 1,163,151 | 5,121,335 |
| More than five years | 235,055 | - | 207,855 | 442,910 |
| | 2,118,248 | 2,250,219 | 1,394,160 | 5,762,627 |
| Less allowance | (202,296) | (214,766) | (137,101) | (554,163) |
| Less discount | (178,894) | (190,052) | (117,373) | (486,319) |
| | $ 1,737,058 | $ 1,845,401 | $ 1,139,686 | $ 4,722,145 |

The due dates of certain pledges were adjusted during the years ended June 30, 2011 and 2010 to more accurately reflect expected collection dates. The amounts are recorded at the present value of future cash flows based on a discount rate of 4%.

At June 30, 2011 and 2010, the University had also been notified of revocable pledges, bequests and other indications of intentions to give. These potential contributions have not been substantiated by written promises to the University. The University's policy is not to record these intentions to give as revenue until they are reduced to writing or are collected.

## Note 4. Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2011 and 2010 consist of the following:

| | June 30 | |
|---|---|---|
| | 2011 | 2010 |
| Grounds and land improvements | $ 9,801,679 | $ 9,528,758 |
| Buildings and building improvements | 125,876,056 | 109,742,263 |
| Equipment | 12,620,978 | 12,175,897 |
| Vehicles and office equipment | 8,416,369 | 6,000,805 |
| Less accumulated depreciation | (49,805,537) | (46,777,571) |
| | $106,909,545 | $ 90,670,152 |

Depreciation expense totaled $3,027,966 and $2,658,413 for the years ended June 30, 2011 and 2010, respectively.

## Note 5. Pension Plans and Other Postretirement Benefit Plans

The University maintains a defined contribution pension plan, administered by TIAA-CREF, which covers the majority of its faculty and administrative personnel. All costs of this plan, $2,526,500 and $2,408,900 for the years ended June 30, 2011 and 2010, respectively, are funded and reflected as expenditures in the year earned, and no past service costs exist.

**Note 5. Pension Plans and Other Postretirement Benefit Plans (Continued)**

The University also maintains a non-contributory defined benefit pension plan, which covered the majority of the University's hourly and certain administrative personnel, through June 30, 1998. This defined benefit plan provides pension benefits that are based upon the employee's length of service with the University. The University's funding policy is to contribute annually the minimum amount required by applicable regulations.

Effective July 1, 1998, the University froze all benefits in the defined benefit pension plan and transferred coverage for all employees to the defined contribution pension plan. Due to significant lump sum distributions, a settlement charge was recognized for the year ended June 30, 2011.

In addition to the University's defined contribution and defined benefit retirement plans, the University has a defined benefit postretirement plan. The plan provides certain health care and life insurance benefits for retired employees who began employment with the University prior to September 1, 1999. The health care plan is contributory. The University makes contributions to this plan equal to benefits paid.

The various components of these plans, which are included in the University's consolidated financial statements, are as follows:

| | Pension Plan June 30 | | Postretirement Benefit Plan June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Net Periodic Benefit Cost** | | | | |
| Service cost | $ - | $ - | $ 390,946 | $ 381,279 |
| Interest cost | 166,092 | 173,721 | 996,216 | 1,185,709 |
| Return on plan assets | (157,871) | (150,713) | - | - |
| Prior service cost | - | - | (1,282,321) | (1,282,322) |
| Settlement charge | 151,415 | - | - | - |
| Amortization of loss | 217,988 | 172,565 | 368,666 | 489,704 |
| Net periodic benefit cost | $ 377,624 | $ 195,573 | $ 473,507 | $ 774,370 |

| | Pension Plan June 30 | | Postretirement Benefit Plan June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Change in Benefit Obligation** | | | | |
| Benefit obligation at beginning of year | $ 3,255,011 | $ 2,857,069 | $ 22,387,864 | $ 18,608,775 |
| Service cost | - | - | 390,946 | 381,279 |
| Interest cost | 166,092 | 173,721 | 996,216 | 1,185,709 |
| Actual distributions | (544,099) | (149,123) | - | - |
| Actuarial (gain) loss | (19,148) | 373,344 | (3,375,617) | 2,958,049 |
| Change in discount rate | - | - | - | - |
| Net contributions | - | - | (629,989) | (745,948) |
| Change in plan provisions | - | - | - | - |
| Benefit obligation at end of year | 2,857,856 | 3,255,011 | 19,769,420 | 22,387,864 |
| Plan assets | 2,629,584 | 2,698,055 | - | - |
| Funded status | $ (228,272) | $ (556,956) | $ (19,769,420) | $ (22,387,864) |

**Note 5. Pension Plans and Other Postretirement Benefit Plans (Continued)**

| | Pension Plan June 30 | | Postretirement Benefit Plan June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Actuarial Assumptions** | | | | |
| Weighted average discount rate: | | | | |
| Expense | 5.25% | 5.25% | 5.64% | 5.34% |
| Benefit obligation (at year end) | 5.25% | 5.25% | 5.64% | 5.34% |
| Expected rate of return on assets | 6.00% | 6.00% | N/A | N/A |
| Medical trend: | | | | |
| For next year (Pre 65/Post 65) | N/A | N/A | 10.00%/7.50% | 9.00% |
| Ultimate trend rate | N/A | N/A | 5.00% | 5.00% |
| Year reached | N/A | N/A | 2015 | 2014 |

Under the postretirement benefit plan, if the medical trend rates were to increase by 1 percent for each year, the benefit obligation as of June 30, 2011 would also increase by $2,577,058 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2011 would increase by $176,157. If the medical trend rates were to decrease by 1 percent for each year, the benefit obligation as of June 30, 2011 would also decrease by $2,650,369 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2011 would decrease by $214,452.

**Pension Plan Assets**

The University's weighted average asset allocations at the measurement date and the target asset allocations by category are as follows:

| | 2011 Actual | 2010 Actual | Target |
|---|---|---|---|
| **Asset Category** | | | |
| Equity securities | 64.4 % | 59.6 % | 50-70 % |
| Debt securities | 35.2 | 39.7 | 30-50 |
| Cash equivalents | 0.4 | 0.7 | 0-15 |
| Total | 100.0 % | 100.0 % | 100.0 % |

## Note 5. Pension Plans and Other Postretirement Benefit Plans (Continued)

### Pension Plan Assets (Continued)

The pension plan's investment policy reflects the long-term nature of the plan's funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a long-term goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. All equity investments are made within the guidelines of quality, marketability and diversification mandated by the Employee Retirement Income Security Act (ERISA) and other relevant statutes. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for that portfolio. Assets invested in fixed income securities and pooled fixed income portfolios are managed actively to pursue opportunities presented by changes in interest rates, credit ratings or maturity premiums. The expected long term rate of return on pension plan assets was developed by the University, in conjunction with the plan actuary, and is based on the past return of the plan investments.

### Pension Plan Contributions

There are no expected contributions to the pension plan for the year ended June 30, 2012.

### Estimated Future Benefit Payments

Future benefit payments, which reflect expected future service, as appropriate, during the next five fiscal years, and in the aggregate for the five fiscal years thereafter, are:

| Fiscal Year Ended June 30 | Pension Benefits | Other Benefits |
|---|---|---|
| 2012 | $ 122,570 | $ 766,036 |
| 2013 | 141,734 | 905,601 |
| 2014 | 156,568 | 1,008,387 |
| 2015 | 162,553 | 1,131,980 |
| 2016 | 172,374 | 1,134,743 |
| 2017 - 2021 | 1,013,100 | 6,601,485 |

Fair value of the University's pension plan assets at June 30, 2011, by asset category, is as follows:

| | Level 1 |
|---|---|
| Equity securities | $1,693,527 |
| Debt securities | 926,536 |
| Cash equivalents | 9,521 |

In addition to the retirement plans described above, the University maintains an unfunded defined benefit pension plan for former or current employees that remain eligible for benefits earned prior to 1952 (the termination date of the plan). Based upon actuarial estimations, the future unfunded costs related to this plan are expected to approximate $60,000 next year, with declining unfunded costs thereafter until 2020.

## Note 6. Investment in Subsidiary

The University currently owns all the stock in its taxable subsidiary, O.W.U. Properties, Inc. (OWU Properties). OWU Properties is the general partner in the Austin Manor Limited Partnership (Austin Manor) and owns 1% of the partnership units of Austin Manor. The University also owns a 2% interest in Austin Manor, directly. Certain limited partners of Austin Manor are also trustees of the University. Austin Manor was formed to finance the renovation of a University owned residence hall into an apartment complex. As part of the renovation, the University transferred ownership of the residence hall and the related land to OWU Properties.

The University has consolidated the assets and operations of OWU Properties into its financial statements. The assets and operations of OWU Properties were immaterial to the University for the years ended June 30, 2011 and 2010.

Under terms of the Austin Manor financing agreement, the University has guaranteed 42.415% of a $2,392,787 first mortgage loan ($1,195,901 outstanding at June 30, 2011).

The University has also loaned approximately $5,006,000 to Austin Manor. The first loan of $650,000 was borrowed from the University's endowment funds and is secured by a third mortgage. The second loan of approximately $4,356,000 was borrowed from the University's current funds and is unsecured. These loans bear interest at the rate of eight percent. Interest payments are limited to 50 percent of Austin Manor's cash flows after all other debt service and operating expenses are paid. At June 30, 2011, the unaudited accumulated partnership deficit of Austin Manor, including depreciation and amortization costs of $2,481,168, approximated $6,859,362. For the year ended June 30, 2011, Austin Manor generated net income, determined by the cash basis of accounting, of approximately $51,300. No interest was paid in 2011 and 2010.

The University has also loaned OWU Properties $140,000 to fund a required special distribution to the partners of Austin Manor. The unsecured loan bears interest at a rate of 8%.

Prior to 2005, the University determined that the loans to Austin Manor and OWU Properties were impaired loans and they remain uncollectible as of June 30, 2011. Interest income is recognized on the loans and is fully reserved. The recorded allowance for doubtful accounts associated with the Austin Manor and OWU Properties loans and related accrued interest is $5,599,884 at June 30, 2011, bringing the net carrying value to $-0-.

## Note 7. Notes Payable

Under an unsecured line of credit arrangement with a bank, the University may borrow up to $10,000,000 at the London Interbank Offered Rate (LIBOR) interest rate (.246% at June 30, 2011) plus 1.5% to fund cyclical working capital requirements. The line of credit arrangement expires in February 2012. As of June 30, 2011, there was $2,728,926 outstanding on this line of credit ($-0- outstanding as of June 30, 2010). This line of credit agreement requires the maintenance of certain financial ratios and restricts the University's ability to pledge or sell certain assets and consolidate with or acquire assets of other entities.

The University has a second unsecured line of credit to borrow up to $2,000,000 at the LIBOR interest rate (.246% at June 30, 2011) plus 1.5% to fund cyclical working capital requirements. As of June 30, 2011, there were no amounts outstanding on this line of credit ($-0- outstanding as of June 30, 2010). This line of credit has a maturity date of November 30, 2011.

**Note 7. Notes Payable (Continued)**

Interest expense for all lines of credit for the years ended June 30, 2011 and 2010 was $15,561 and $1,570, respectively.

**Note 8. Bonds Payable**

Bonds payable at June 30, 2011 and 2010 consisted of the following:

| | 2011 | 2010 |
|---|---|---|
| Variable-rate bonds issued in 2009, principal payments beginning in 2009 and maturing through 2025 (2009 Bonds) | $22,234,474 | $23,421,118 |
| 2.0% to 4.0% bonds issued in 2004 and maturing through 2017 (2004 Bonds) | 3,435,000 | 3,900,000 |
| 5.15% bonds issued in 1998 and maturing through 2013 (Air Quality Development Bonds) | 914,285 | 1,248,353 |
| Total bonds payable | $26,583,759 | $28,569,471 |

In November 2009, the University, in conjunction with the Ohio Higher Educational Facility Commission (the Commission), issued $24,000,000 of State of Ohio Higher Educational Facility Variable Rate Bonds (the 2009 Bonds). The variable interest rate is based on 65% of 1-month LIBOR plus 130 basis points (1.42% at June 30, 2011). The University entered into an interest rate swap to manage cash flow fluctuations resulting from interest rate risk. The rate has been fixed at 3.285% through the use of a Swap Agreement with PNC Bank. While the bonds were issued through the Commission, they were ultimately placed as a private placement bond with PNC Bank. The bond proceeds were used to repay bonds issued in 2002 and 2005, and provided new funding for the renovation of various residence halls on campus (the 2009 Project).

The 2009 Project is leased to the University by the Commission pursuant to a lease agreement (the Lease). The University is required to make rental payments under the Lease in amounts sufficient to pay the principal and interest on the 2009 Bonds. The University has agreed to purchase the 2009 Project from the Commission after all of the debt service on the 2009 Bonds has been paid. The 2009 Bonds are special obligations of the State of Ohio and the debt service on the 2009 Bonds is payable solely from the revenues to be derived by the Commission from its ownership of the 2009 Project.

Bond debt service for the 2009 Bonds is calculated over a 16 year life with principal repayments beginning December 1, 2009. The 2009 Bonds are collateralized by a security interest in the 2009 Project. The University has also unconditionally guaranteed the payment of the 2009 Bonds.

In 2004, the University, in conjunction with the Commission, issued $6,000,000 in Higher Educational Facility Revenue Bonds (the 2004 Bonds) to refund outstanding 1994 Revenue Bonds. Proceeds from the 2004 Bonds, as well as the existing Bond and Bond Reserve Funds, were used to refinance the outstanding 1994 Bonds, pay costs of issuance and establish a new Bond Reserve Fund.

## Note 8. Bonds Payable (Continued)

The 2004 Project is leased to the University by the Commission pursuant to a lease agreement (the Lease). The University is required to make rental payments under the Lease in amounts sufficient to pay the principal and interest on the 2004 Bonds. The University has agreed to purchase the 2004 Project from the Commission after the principal of the Bonds has been paid. The 2004 Bonds are special obligations of the State of Ohio and the debt service on the 2004 Bonds is payable solely from the revenues to be derived by the Commission from its ownership of the 2004 Project. The University has also unconditionally guaranteed the payment of the 2004 Bonds and agreed to maintain a certain level of funding in a Bond Reserve Fund. In addition, the 2004 Bonds are insured by municipal bond insurance, so long as the Bonds remain outstanding.

During October 1998, the University entered into an agreement which guarantees the payment of semi-annual amounts to cover debt service associated with bonds, which were issued by the Ohio Air Quality Development Authority (the Authority) to fund an energy conservation measures project for the University. The total bonds issued by the Authority for this project were $4,096,940, and $914,285 was outstanding on the bonds as of June 30, 2011. The bonds bear interest at a rate of 5.15% and are payable in semi-annual payments (principal and interest) of $197,379 over 15 years, maturing on September 15, 2013.

Principal payments for all bonds, for the years ending June 30, are as follows:

| | |
|---|---|
| 2012 | $ 2,057,901 |
| 2013 | 2,142,339 |
| 2014 | 2,011,740 |
| 2015 | 1,898,034 |
| 2016 | 1,958,156 |
| Thereafter | 16,515,589 |
| | $26,583,759 |

Interest expense for all bonds payable for the years ended June 30, 2011 and 2010 was $1,055,438 and $922,652, respectively.

The interest rate swap agreement is designated and qualifies as a fair value hedge and is reported at fair value. Changes in the swap's fair value are reported on the consolidated statements of activities within non-operating activities of unrestricted net assets. Amounts receivable or payable under the swap are settled by the parties on a monthly basis and are treated as an increase or decrease in interest expense. For the years ended June 30, 2011 and 2010, the decrease in fair value of the swap agreement was $33,305 and $693,500, respectively. Interest expense increased by $419,272 and $236,776 in 2011 and 2010, respectively, due to the interest rate swap.

## Note 9. Net Assets

The University's temporarily and permanently restricted net assets consisted of the following:

| | June 30 | |
|---|---|---|
| | 2011 | 2010 |
| **Temporarily restricted net assets** | | |
| Unspent gains on endowment and similar funds | $ 59,445,547 | $ 36,669,088 |
| Annuity, pooled income and unitrust funds | (775,454) | (307,637) |
| Interest in trusts | 2,396,865 | 3,412,004 |
| Endowment income designated for restricted purposes | 3,750,203 | 4,244,814 |
| Equity in plant assets | - | 989,393 |
| Unexpended gifts and grants | 2,213,655 | 2,342,874 |
| Pledges receivable | 5,991,283 | 3,582,459 |
| | $ 73,022,099 | $ 50,932,995 |
| **Permanently restricted net assets** | | |
| Perpetual endowment funds | $120,262,915 | $117,123,414 |
| Annuity, pooled income and unitrust funds | 2,774,453 | 2,043,507 |
| Interest in trusts | 2,027,093 | 1,832,754 |
| Pledges receivable | 6,652,842 | 1,139,686 |
| Student loan funds | 1,864,699 | 1,782,625 |
| | $133,582,002 | $123,921,986 |

## Note 10. Endowment Funds

The Board of Trustees of the University has approved an investment policy detailing the long-term goals, asset allocation, measurable objectives, on-going communication, review and oversight. The basic philosophy of the investment policy is that administration and management of the endowment are to be implemented through diversified investment options designed to recognize income needs for ongoing operations, as well as committed spending and capital-growth needs to meet expansion goals and costs increased by future inflation.

Permanently restricted endowment funds represent funds which are restricted as to use in perpetuity. The University records permanent endowment gifts at historic dollar value. Distributions from endowment funds are spent in compliance with the donor's restrictions applicable to the funds being distributed. The current spending rule provides an annual cash flow to the operating budget equal to the fixed amount of spending calculated at June 30, 1998 plus 5% of new endowment gifts each year through the current year.

According to the University's spending policy, $9,377,422 and $8,500,000 was distributed for operations during the years ended June 30, 2011 and 2010, respectively.

**Note 10. Endowment Funds (Continued)**

From time to time the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires the University to retain as a perpetual fund balance. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions or as a result of continued expenditure for programs that the Board deems prudent. The fair value of assets associated with certain individual donor-restricted endowment funds was below the carrying value by $527,401 and $3,431,774 at June 30, 2011 and 2010, respectively.

The endowment pool, which includes true endowment and quasi-endowment, was as follows as of June 30, 2011 and 2010:

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, beginning of year | $ 8,786,964 | $ 34,037,897 | $117,123,414 | $159,948,275 |
| Investment return: | | | | |
| Investment income | 137,875 | 2,371,847 | | 2,509,722 |
| Net appreciation (realized and unrealized) | 1,292,044 | 29,100,936 | | 30,392,980 |
| Total investment return | 1,429,919 | 31,472,783 | | 32,902,702 |
| Cash contributions and transfers | 19,382 | | 3,139,501 | 3,158,883 |
| Appropriation of endowment assets for expenditure | (137,875) | (9,239,547) | | (9,377,422) |
| Endowment assets, end of year | $ 10,098,390 | $ 56,271,133 | $120,262,915 | $186,632,438 |

**Note 10. Endowment Funds (Continued)**

| | 2010 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, beginning of year | $ 7,706,647 | $ 20,206,575 | $114,744,791 | $142,658,013 |
| Investment return: | | | | |
| Investment income | 143,344 | 2,510,096 | 1,200 | 2,654,640 |
| Net appreciation (realized and unrealized) | 808,007 | 19,677,882 | | 20,485,889 |
| Total investment return | 951,351 | 22,187,978 | 1,200 | 23,140,529 |
| Cash contributions and transfers | 272,310 | | 2,377,423 | 2,649,733 |
| Appropriation of endowment assets for expenditure | (143,344) | (8,356,656) | | (8,500,000) |
| Endowment assets, end of year | $ 8,786,964 | $ 34,037,897 | $117,123,414 | $159,948,275 |

**Note 11. Commitments and Contingencies**

At June 30, 2011, the University has outstanding commitments on various construction projects totaling approximately $13,200,000, most of which is related to Stuyvesant Hall as describe in Note 12. These projects are being funded with a private loan and donor contributions.

The University is involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the University's operations or financial position.

**Note 12. Subsequent Events**

Stuyvesant Hall Renovation

The University entered into contracts for the design and renovation of the Stuyvesant Hall student residence. As of December 1, 2011, construction is approximately 20% complete with an anticipated project completion date of August 2012. Funding for the Stuyvesant Hall project is being provided through a combination of dedicated gifts and pledges and the sale of federal and state Historic Tax Credits to an outside investor. On December 16, 2011, the University entered into a loan in the form of a taxable draw loan agreement with PNC Bank for an amount not to exceed $15,000,000. The terms of the loan call for a 2-year interest-only repayment period during the draw period, then an additional 60 months to maturity based on a 25-year amortization of the balance with a balloon payment due for any outstanding balance at the end of 96 months. The loan is at a variable rate of LIBOR plus 1.10%. The University has pledges and gifts in support of the Stuyvesant Hall renovation project, for which this debt was incurred, that should allow for the debt in its entirety to be retired prior to maturity.

**Note 12. Subsequent Events (Continued)**

Outsourcing the Management of the Ohio Wesleyan University Endowment

The University's Board of Trustees has approved the full outsourcing of day-to-day management of the University's endowment to Cambridge Associates. In order to make this change, the University will transfer the endowment assets into a new wholly owned entity, OWU Fund, LP, in January 2012. The assets and holdings of the endowment will continue to be consolidated for financial statement purposes with the University.