OHIO WESLEYAN UNIVERSITY
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2012 and 2011

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Consolidated statements of financial position	2-3
Consolidated statements of activities	4-5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7-29

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Maloney+Novotny LLC

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 subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the June 30, 2012 financial statements of OWU Fund, LP, described in Note 1.A. OWU Fund, LP represents 32% of consolidated total assets as of June 30, 2012, and 20% of the net loss on investments of the consolidated change in net assets for the year ended June 30, 2012. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for OWU Fund, LP, is based solely on the report of the other auditors.

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 subsidiaries' 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ohio Wesleyan University and subsidiaries as of June 30, 2012 and 2011, and the consolidated 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 18, 2012

Business Advisors and Certified Public Accountants
Cleveland | Canton | Elyria

NEXIA INTERNATIONAL

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 918,022	$ 619,403
Short-term investments	642,220	-
Accounts receivable:		
Students, net	1,044,093	895,986
Grants	1,515,900	2,069,252
Other	748,031	650,941
Total accounts receivable	3,308,024	3,616,179
Pledges receivable, net	11,541,262	12,644,125
Student loans receivable, net	5,913,948	6,158,165
Inventories and prepaid expenses	560,098	506,795
Investments	184,281,299	198,937,634
Interests in trusts	3,488,024	4,423,958
Land, buildings and equipment, net	106,916,878	106,909,545
Construction in progress	10,688,437	1,951,738
Bond issue costs, net	273,212	267,851
Total assets	$328,531,424	$336,035,393

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

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 4,126,596	$ 4,014,084
Accrued compensation	3,872,289	4,028,670
Deferred income and deposits	3,797,107	3,480,071
Other accrued liabilities	1,695,375	1,507,647
Fair value of interest rate swap	1,230,585	726,805
Bonds payable	31,759,762	26,583,759
Notes payable	600,647	2,728,926
Postretirement benefits other than pensions	23,010,959	19,769,420
Accrued pension liability	562,938	228,272
Annuities and unitrusts payable	2,175,015	2,241,914
Advances from federal government for student loans	3,569,024	3,504,823
Total liabilities	76,400,297	68,814,391
Net assets:		
Unrestricted:	55,819,554	60,616,901
Temporarily restricted	58,511,654	73,022,099
Permanently restricted	137,767,637	133,582,002
Total net assets	252,098,845	267,221,002
Noncontrolling interest	32,282	-
Total liabilities and net assets	$328,531,424	$336,035,393

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

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue, gains and other support:				
Tuition and fees	$ 66,413,416			$ 66,413,416
Less: University funded financial aid	(31,285,770)			(31,285,770)
Financial aid from outside sources	(6,261,785)			(6,261,785)
Net tuition and fees	28,865,861			28,865,861
Gifts, pledges and bequests	6,601,398	$ 2,029,795	$ 4,162,624	12,793,817
Investment income on endowment	272,474	673,749	173,839	1,120,062
Other investment income	149,876		463	150,339
Gains on investments used for current operations	2,864,709	5,572,911	71,248	8,508,868
Government grants	418,833	1,202,620		1,621,453
Other income	1,260,711	1,629,772	(82,963)	2,807,520
Sales and services of auxiliary enterprises	14,920,965	47,814		14,968,779
Net assets released from restrictions	10,798,000	(10,798,000)		-
Total operating revenue, gains and other support	66,152,827	358,661	4,325,211	70,836,699
Operating expenses:				
Instruction	23,809,274			23,809,274
Student services	11,685,048			11,685,048
Academic support, including library	6,062,601			6,062,601
Auxiliary enterprises	12,661,650			12,661,650
Management and general	7,577,972			7,577,972
Fundraising	3,221,265			3,221,265
Public services	681,212			681,212
Research	259,037			259,037
Total operating expenses	65,958,059			65,958,059
Net increase in net assets from operations	194,768	358,661	4,325,211	4,878,640
Nonoperating revenues and expenses:				
Losses on investments in excess of amount designated for current operations	(842,606)	(14,861,725)		(15,704,331)
Postretirement obligation adjustment	(3,241,539)			(3,241,539)
Pension-related charges other than net periodic pension cost	(334,666)			(334,666)
Change in fair value of interest rate swap	(503,780)			(503,780)
Actuarial adjustment of split-interest agreements	(788,977)	(7,381)	(139,576)	(935,934)
Matured split interest agreements	719,235			719,235
Change in net assets	(4,797,565)	(14,510,445)	4,185,635	(15,122,375)
Net assets, beginning of year	60,616,901	73,022,099	133,582,002	267,221,002
Capital contribution (noncontrolling interest)	32,500			32,500
Net assets, end of year	$ 55,851,836	$ 58,511,654	$137,767,637	$252,131,127

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

OHIO WESLEYAN UNIVERSITY AND SUBSIDIARIES

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 (decrease) in net assets 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 SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (15,122,375)	$ 38,298,065
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,334,648	3,054,813
Realized and unrealized losses (gains) on investments	7,195,463	(30,936,202)
Contributions, net of pledges, for permanently restricted purposes	(4,870,885)	(2,979,319)
Income restricted for long-term investment	90,876	973,202
Change in fair value of interest rate swap	503,780	33,305
Changes in operating assets and liabilities:		
Decrease in accounts receivable	308,155	366,817
Decrease (increase) in pledges receivable	1,102,863	(7,921,980)
Decrease (increase) in student loans receivable	244,217	(81,441)
(Increase) decrease in inventories and prepaid expenses	(53,303)	532,872
Decrease in interests in trusts	935,934	820,800
Increase (decrease) in accounts payable	112,512	(300,538)
Decrease in accrued compensation	(156,381)	(2,059,706)
Increase (decrease) in deferred income and deposits	317,036	(844,082)
Increase (decrease) in other accrued liabilities	187,728	(42,711)
Increase (decrease) in postretirement benefits other than pensions	3,241,539	(2,618,444)
Increase (decrease) in accrued pension liability	334,666	(328,684)
(Decrease) increase in annuities and unitrusts payable	(66,899)	259,537
Increase in advances from federal government for student loans	64,201	49,668
Net cash used in operating activities	(2,296,225)	(3,724,028)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings and equipment	(12,050,137)	(9,283,642)
Sales of securities, net	7,460,872	5,011,880
Net cash used in investing activities	(4,589,265)	(4,271,762)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from noncontrolling investors	32,500	-
Contributions, net of pledges, for permanently restricted purposes	4,870,885	2,979,319
Loss restricted for long-term investment	(90,876)	(973,202)
(Payments) borrowings on notes payable	(2,128,279)	2,728,926
Costs of bonds issued	(33,904)	-
Bonds issued	7,233,904	-
Payments on bonds payable	(2,057,901)	(1,985,712)
Net cash provided by financing activities	7,826,329	2,749,331
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	940,839	(5,246,459)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	619,403	5,865,862
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 1,560,242	$ 619,403
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 1,019,557	$ 1,076,692

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

Note 1. Nature of Organization and 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.

OWU Fund, LP, (OWU Fund) is a limited partnership which commenced operations January 1, 2012, in which the University is the sole limited partner. The partnership acts as an investment vehicle for a significant portion of the University's endowment. The OWU Fund was audited by other auditors as of and for the period ended June 30, 2012.

O.W.U. Properties, Inc. (OWU Properties) is a wholly-owned for-profit subsidiary of the University (Note 6) and is consolidated for financial statement purposes with the University.

Stuyvesant Hall Holdings, Inc. (Holdings) is a wholly-owned subsidiary of the University and, as further described below, has a 60.00% ownership interest in Stuyvesant Hall, LLC and a 0.01% ownership interest in Stuyvesant Hall Master Tenant, LLC (Master Tenant), a limited liability company.

Stuyvesant Hall, LLC (Stuyvesant Hall) is a limited liability company and one of three entities formed by the University to facilitate the rehabilitation of the Stuyvesant Hall building, a 245-bed historic building located in Delaware, Ohio on the campus of the University. The rehabilitation project commenced in August 2011 and was completed in October 2012. Stuyvesant Hall holds title to the Stuyvesant Hall building and the land on which it is built.

The Stuyvesant Hall building is listed on the National Register of Historic Places, making it eligible for tax credits under federal and state tax laws (Federal Historic Tax Credits and State of Ohio Historic Tax Credits) for qualified expenditures incurred in a substantial renovation of the building. Stuyvesant Hall filed and received approval from the National Parks Service on Parts 1 and 2 of its application for Federal Historic Tax Credits on qualified rehabilitation expenditures.

The University is the managing member of Master Tenant. In September 2012, Master Tenant began leasing 100% of the building from Stuyvesant Hall, and subleases residential space to individual student residents and commercial space to the University.

Master Tenant entered into a master lease agreement with Stuyvesant Hall for the leasing of the Stuyvesant Hall building for a term of 32 years ending in 2044. The University entered into a 6-year sublease agreement with Master Tenant to lease approximately 11,500 square feet of commercial space and will sublease the residential space to student residents on an annual basis.

B. Basis of Consolidation – These consolidated financial statements include the accounts of the University, OWU Fund, OWU Properties, Holdings, Stuyvesant Hall and Master Tenant. All significant intercompany activity was eliminated in consolidation.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

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.

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.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

The University has evaluated all subsequent events through December 18, 2012, 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 different investment types. 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 $820,000 and $720,000 at June 30, 2012 and 2011, 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 (5% at June 30, 2012 and 2011) 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, 2012 and 2011.

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 consolidated 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.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

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 consolidated 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, 2012 and 2011:

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

	2012			
	Level 1	Level 2	Level 3	Fair Value Total
Assets:				
Investments				
International equities		$ 4,124,562		$ 4,124,562
Domestic equities	$ 3,548,907			3,548,907
Hedge/absolute return funds			$ 8,051,901	8,051,901
Fixed income	1,924,057	1,417,718		3,341,775
Other	388,111		11,103	399,214
U.S. Government securities	1,194,628			1,194,628
Common stocks	16,084,076			16,084,076
Mutual funds				
High quality bonds and cash	14,215,098			14,215,098
Global equity	8,159,930			8,159,930
Real assets	2,864,673			2,864,673
Commingled funds				
Real assets		14,071,081		14,071,081
Global equity		11,403,237		11,403,237
Absolute return		4,611,738		4,611,738
Derivative investment				
Warrant	629,114			629,114
Hedge fund class				
Global equity		2,455,812		2,455,812
Private equity fund class				
Distressed investments			5,368,658	5,368,658
Global venture capital/ private			3,154,031	3,154,031
Hybrid fund of funds			1,929,259	1,929,259
Private natural resources			1,625,152	1,625,152
U.S. private equity			3,138,441	3,138,441
U.S. venture capital			4,795,564	4,795,564
Money market mutual funds	9,529,452			9,529,452
Other - OWU Fund	1,001,434			1,001,434
Multi-asset class			49,966,375	49,966,375
Cash and cash equivalents	8,617,187			8,617,187
	68,156,667	38,084,148	78,040,484	184,281,299
Interests in trusts			3,488,024	3,488,024
Liabilities:				
Interest rate swap		1,230,585		1,230,585

Note 1. Nature of Organization and 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
Interests in trusts			4,423,958	4,423,958
Liabilities:				
Interest rate swap		726,805		726,805

Investments – Prior to January 1, 2012, the University's investing was accomplished through direct ownership of securities and use of separate fund managers. Since January 1, 2012, the University has invested in securities primarily through the OWU Fund and Makena Capital Management (Makena). The University, directly through January 1, 2012 and since January 1, 2012, through the OWU Fund, invests in cash and cash equivalents, common stocks, money market mutual funds, fixed income 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, use of significant management judgment and redemption terms of some investment vehicles. This includes multi-asset class 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 managers' third party administrators.

The University's investment with Makena is a Multi-Asset Class portfolio and is reported as a Level 3 investment due to liquidity restrictions. Makena's portfolio is comprised of alternative investment funds (78%), marketable securities (16%) and cash equivalents (6%) as of June 30, 2012.

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.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

K. Fair Value of Financial Instruments (Continued)

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:

	2012					
	Beginning Balance	Additions/ Purchases	Distributions	Realized and Unrealized Gains (Losses)	In-Kind Contributions (Transfers)	Ending Balance
Hedge/absolute return funds	$33,359,495		$ (23,856,461)	$ (1,451,133)		$ 8,051,901
Other	11,103					11,103
Venture capital	14,075,552	$ 941,647	(15,253,658)	236,459		-
Real estate investment trusts	7,253,929		(6,680,364)	(573,565)		-
Private equity fund class:						
Distressed investments	-		(2,075,351)	809,742	$ 6,634,267	5,368,658
Global venture capital/private	-	285,000	(187,218)	109,758	2,946,491	3,154,031
Hybrid fund of funds	-	60,000	(113,460)	24,635	1,958,084	1,929,259
Private natural resources	-	125,000	(97,633)	4,091	1,593,694	1,625,152
U.S. private equity	-	87,500	(352,131)	199,294	3,203,778	3,138,441
U.S. venture capital	-	386,000	(240,763)	85,569	4,564,758	4,795,564
Multi-asset class	-	48,269,839	(144,360)	1,840,896		49,966,375
Interest in trusts	4,423,958		(719,235)	(216,699)		3,488,024

	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

Note 1. Nature of Organization and 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 while repairs are expensed. The University provides for depreciation on the straight-line method over the estimated useful lives summarized in the following table:

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

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

N. 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 1.6% to 10.0% at June 30, 2012 and 2.0% to 10.0% at June 30, 2011.

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 $380,000 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 consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

S. Federal Income Tax (Continued)

Stuyvesant Hall and Master Tenant are organized as limited liability companies and are taxed as partnerships for federal income tax purposes. Accordingly, all profits and losses of the companies are recognized by each member on their respective tax returns. Holdings was organized as C Corporation pursuant to the provisions of the Internal Revenue Code.

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting and operating loss and tax credit carry forwards. No provision for federal income taxes was necessary for the years ended June 30, 2012 or 2011.

As of June 30, 2012, the University's income tax years from 2008 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, 2012 and 2011.

U. Reclassifications – Certain reclassifications of 2011 amounts have been made to conform to the 2012 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.

During the year ended June 30, 2012, the University transitioned a significant portion of its investments to the OWU Fund and Makena. The University continues to set investment policy, allows asset allocation ranges and monitors performance. The University has delegated the authority for investment decisions of the OWU Fund to Cambridge and Associates which includes asset allocation and manager selection. In addition, the University has made an investment in Makena, a multi-asset class manager with a 2-year lock up. The University has redeemed holdings from other managers and placed those funds and transferred other investments into these investment vehicles.

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

Note 2. Investments (Continued)

	June 30, 2012	
	Market	Cost
International equities	$ 4,124,562	$ 4,312,303
Domestic equities	3,548,907	3,024,957
Hedge/absolute return funds	8,051,901	5,667,058
Fixed income	3,341,775	3,235,054
Other	399,214	399,214
U.S. Government securities	1,194,628	1,121,625
Common stocks	16,084,076	17,270,652
Mutual funds		
High quality bonds and cash	14,215,098	13,949,682
Global equity	8,159,930	8,323,620
Real assets	2,864,673	2,934,797
Commingled funds		
Real assets	14,071,081	15,846,221
Global equity	11,403,237	9,798,746
Absolute return	4,611,738	4,492,830
Derivative investment		
Warrant	629,114	689,996
Hedge fund class		
Global equity	2,455,812	2,500,000
Private equity fund class		
Distressed investments	5,368,658	3,651,416
Global venture capital/private	3,154,031	2,500,183
Hybrid fund of funds	1,929,259	1,581,541
Private natural resources	1,625,152	1,332,876
U.S. private equity	3,138,441	2,521,572
U.S. venture capital	4,795,564	3,877,605
Money market mutual funds	9,529,452	9,529,452
Other - OWU Fund	1,001,434	999,634
Multi-asset class	49,966,375	48,125,479
Cash and cash equivalents	8,617,187	8,617,189
Total investments	$184,281,299	$176,303,702

Note 2. Investments (Continued)

	June 30, 2011	
	Market	Cost
International equities	$ 48,962,880	$ 40,927,579
Domestic equities	47,110,194	46,826,543
Hedge/absolute return funds	33,359,495	18,475,479
Fixed income	40,865,033	40,152,117
Venture capital	14,075,552	12,118,897
Real estate investment trusts	11,687,229	11,599,535
Cash equivalents	1,498,222	1,498,222
Other	390,220	390,220
U.S. Government securities	988,809	924,664
Total investments	$198,937,634	$172,913,256

At June 30, 2012, the University has committed to invest additional funds in limited partnership investments in the amount of approximately $5,500,000, at the direction of the general partners. Investment expenses were $936,791 and $1,256,039 for the years ended June 30, 2012 and 2011, respectively, and included in investment income.

The composition of investment return is as follows:

	Years Ended June 30	
	2012	2011
Investment income (interest and dividends)	$ 1,120,062	$ 2,619,422
Realized and unrealized (losses) gains on investments	(7,195,463)	30,936,202
Total investment return	(6,075,401)	33,555,624
Investment return designated for current operations	9,628,930	9,487,122
Non-operating investment return	$ (15,704,331)	$ 24,068,502

Note 3. Pledges Receivable

As of June 30, 2012 and 2011, the University had received unconditional promises totaling $13,631,424 and $15,323,424, respectively, on which management has recorded an allowance for uncollectible promises of $1,115,162 and $1,389,123, respectively. The unconditional promises are intended primarily for endowed scholarships and investment in plant and are due as follows:

	June 30, 2012			
	Temporarily Restricted Plant	Temporarily Restricted Other	Permanently Restricted	Total
Less than one year	$ 758,494	$ 673,948	$ 1,047,362	$ 2,479,804
One to five years	4,994,285	108,500	5,979,050	11,081,835
More than five years	49,485	-	20,300	69,785
	5,802,264	782,448	7,046,712	13,631,424
Less allowance	(504,377)	(10,850)	(599,935)	(1,115,162)
Less discount	(412,698)	(60,106)	(502,196)	(975,000)
	$ 4,885,189	$ 711,492	$ 5,944,581	$ 11,541,262

Note 3. Pledges Receivable (Continued)

	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

The due dates of certain pledges were adjusted during the years ended June 30, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011 consist of the following:

	June 30	
	2012	2011
Grounds and land improvements	$ 9,853,406	$ 9,801,679
Buildings and building improvements	127,721,695	125,876,056
Equipment	12,762,382	12,620,978
Vehicles and office equipment	8,780,844	8,416,369
Less accumulated depreciation	(52,201,449)	(49,805,537)
	$106,916,878	$106,909,545

Depreciation expense totaled $3,306,105 and $3,027,966 for the years ended June 30, 2012 and 2011, 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, $2,381,677 and $2,526,500 for the years ended June 30, 2012 and 2011, respectively, are funded and reflected as expenditures in the year earned, and no past service costs exist.

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 years ended June 30, 2012 and 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	
	2012	2011	2012	2011
Net Periodic Benefit Cost				
Service cost	$ -	$ -	$ 342,171	$ 390,946
Interest cost	145,561	166,092	971,322	996,216
Return on plan assets	(154,059)	(157,871)	-	-
Prior service cost	-	-	(864,225)	(1,282,321)
Settlement charge	78,949	151,415	-	-
Amortization of loss	96,925	217,988	78,334	368,666
Net periodic benefit cost	$ 167,376	$ 377,624	$ 527,602	$ 473,507

The postretirement benefit plan has amounts unrecognized in net periodic benefit cost for prior service credit of $1,808,334 and a net actuarial loss of $7,128,206 at June 30, 2012. The estimated amortization of prior service cost and actuarial loss is $882,774 and $697,559, respectively, in 2013.

The pension plan has $1,101,073 of unrecognized actuarial loss at June 30, 2012. The estimated amortization of actuarial loss is $162,159 in 2013.

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

	Pension Plan June 30		Postretirement Benefit Plan June 30	
	2012	2011	2012	2011
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 2,857,856	$ 3,255,011	$ 19,769,420	$ 22,387,864
Service cost	-	-	342,171	390,946
Interest cost	145,561	166,092	971,322	996,216
Actual distributions	(317,929)	(544,099)	-	-
Actuarial loss (gain)	244,617	(19,148)	2,703,966	(3,375,617)
Change in discount rate	-	-	-	-
Net contributions (employer)	-	-	(659,353)	(629,989)
Change in plan provisions	-	-	(116,567)	-
Benefit obligation at end of year	2,930,105	2,857,856	23,010,959	19,769,420
Plan assets	2,367,167	2,629,584	-	-
Funded status	$ (562,938)	$ (228,272)	$ (23,010,959)	$ (19,769,420)

	Pension Plan June 30		Postretirement Benefit Plan June 30	
	2012	2011	2012	2011
Actuarial Assumptions				
Weighted average discount rate:				
Expense	5.25%	5.25%	4.65%	5.64%
Benefit obligation (at year end)	4.50%	5.25%	4.65%	5.64%
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%/(.5%)	10.00%/7.50%
Ultimate trend rate	N/A	N/A	5.00%	5.00%
Year reached	N/A	N/A	2017/2023	2015

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, 2012 would also increase by $2,369,778 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2012 would increase by $202,679. If the medical trend rates were to decrease by 1 percent for each year, the benefit obligation as of June 30, 2012 would also decrease by $1,971,173 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost for the fiscal year ended June 30, 2012 would decrease by $166,336.

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

Pension Plan Assets

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

	2012 Actual	2011 Actual	Target
Asset Category			
Equity securities	55.0 %	64.4 %	50-70 %
Debt securities	42.9	35.2	30-50
Cash equivalents	2.1	0.4	0-15
Total	100.0 %	100.0 %	100.0 %

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, 2013.

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:

2013	$ 129,931	$ 852,600
2014	140,445	983,000
2015	144,715	1,118,000
2016	152,851	1,246,000
2017	163,048	1,313,000
2018 - 2022	949,399	7,246,000

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

Estimated Future Benefit Payments (Continued)

The University's pension plan assets at June 30, 2012 are all Level 1 assets. The fair value, by asset category, is as follows:

Equity securities	$1,301,812
Debt securities	1,015,622
Cash equivalents	49,733
	$2,367,167

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 $56,000 next year, with declining unfunded costs thereafter until 2020.

Note 6. Investment in OWU Properties

The University currently owns all the stock in its taxable subsidiary, 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, 2012 and 2011.

Under terms of the Austin Manor financing agreement, the University has guaranteed 42.415% of a $2,392,787 first mortgage loan ($1,030,950 outstanding at June 30, 2012).

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 8%. Interest payments are limited to 50% of Austin Manor's cash flows after all other debt service and operating expenses are paid. At June 30, 2012, the unaudited accumulated partnership deficit of Austin Manor, including depreciation and amortization costs of $2,588,622, approximated $6,860,874. For the year ended June 30, 2012, Austin Manor generated net income, determined by the cash basis of accounting, of approximately $295,439. No interest was paid in 2012 and 2011.

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, 2012. 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 $5,746,120 at June 30, 2012, 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 (.461% at June 30, 2012) plus 1.5% to fund cyclical working capital requirements. The line of credit arrangement expires in April 2013. As of June 30, 2012, there was $600,647 outstanding on this line of credit ($2,728,926 outstanding as of June 30, 2011). 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 $4,000,000 at the LIBOR interest rate (.461% at June 30, 2012) plus 1.5% to fund cyclical working capital requirements. As of June 30, 2012, there were no amounts outstanding on this line of credit ($-0- outstanding as of June 30, 2011). This line of credit has a maturity date of November 30, 2013.

Interest expense for all lines of credit for the years ended June 30, 2012 and 2011 was $20,789 and $15,561, respectively.

Note 8. Bonds Payable

Bonds payable at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Variable-rate bonds issued in 2011, principal payments beginning in 2013 (2011 Bonds)	$ 7,233,904	$ -
Variable-rate bonds issued in 2009, principal payments beginning in 2009 and maturing through 2025 (2009 Bonds)	21,008,257	22,234,474
2.0% to 4.0% bonds issued in 2004 and maturing through 2017 (2004 Bonds)	2,955,000	3,435,000
5.15% bonds issued in 1998 and maturing through 2013 (Air Quality Development Bonds)	562,601	914,285
Total bonds payable	$31,759,762	$26,583,759

On December 16, 2011, the University entered into a loan in the form of a draw term loan agreement with PNC Bank for up to $15,000,000 (the 2011 Bonds). 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 based on the daily LIBOR rate (.244% at June 30, 2012) plus 1.10%. The proceeds are for the renovation of Stuyvesant Hall. Additional draws of $4.8 million were made in November 2012.

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 (1.46% at June 30, 2012). 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).

Note 8. Bonds Payable (Continued)

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 and agreed to maintain a certain level of funding in a Bond Reserve Fund ($724,335 at June 30, 2012 included in investments).

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.

The 2004 Project is leased to the University by the Commission pursuant to a lease agreement. 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 ($290,435 at June 30, 2012 included in investments). 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 $562,601 was outstanding on the bonds as of June 30, 2012. 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:

2013	$ 2,142,339
2014	2,156,418
2015	2,187,390
2016	2,247,512
2017	2,319,139
Thereafter	20,706,964
	$31,759,762

Note 8. Bonds Payable (Continued)

Interest expense for all bonds payable for the years ended June 30, 2012 and 2011 was $1,002,027 and $1,055,438, 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, 2012 and 2011, the increase in fair value of the swap agreement liability was $503,780 and $33,305, respectively. Interest expense increased by $403,791 and $419,272 in 2012 and 2011, 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	
	2012	2011
Temporarily restricted net assets		
Unspent gains on endowment and similar funds	$ 45,268,510	$ 59,445,547
Annuity, pooled income and unitrust funds	(1,558,676)	(775,454)
Interest in trusts	1,600,507	2,396,865
Endowment income designated for restricted purposes	3,975,963	3,750,203
Unexpended gifts and grants	3,628,669	2,213,655
Pledges receivable	5,596,681	5,991,283
	$ 58,511,654	$ 73,022,099
Permanently restricted net assets		
Perpetual endowment funds	$124,982,335	$120,262,915
Annuity, pooled income and unitrust funds	3,018,907	2,774,453
Interest in trusts	1,887,517	2,027,093
Pledges receivable	5,944,581	6,652,842
Student loan funds	1,934,297	1,864,699
	$137,767,637	$133,582,002

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.

Note 10. Endowment Funds (Continued)

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, $9,509,934 and $9,377,422 was distributed for operations during the years ended June 30, 2012 and 2011, respectively.

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 $2,170,919 and $527,401 at June 30, 2012 and 2011, respectively.

The endowment pool, which includes true endowment and quasi-endowment, was as follows as of June 30, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ 10,098,390	$ 56,271,133	$120,262,915	$186,632,438
Investment return:				
Investment income	54,166	946,899		1,001,065
Net depreciation (realized and unrealized)	(842,606)	(6,124,450)		(6,967,056)
Total investment return	(788,440)	(5,177,551)		(5,965,991)
Cash contributions and transfers	154,883		4,719,420	4,874,303
Appropriation of endowment assets for expenditure	(54,166)	(9,455,768)		(9,509,934)
Endowment assets, end of year	$ 9,410,667	$ 41,637,814	$124,982,335	$176,030,816

Note 10. Endowment Funds (Continued)

	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 11. Noncontrolling Interest

The following is a reconciliation of net assets relating to the University and to the noncontrolling interests of Stuyvesant Hall and Master Tenant:

	University	Noncontrolling Interest	Total
Net assets balance at July 1, 2011	$267,221,002	$ -	$267,221,002
Capital contribution		32,500	32,500
Decrease in net assets attributable to:			
University	(15,122,157)		(15,122,157)
Noncontrolling interests		(218)	(218)
Net assets balance at June 30, 2012	$252,098,845	$ 32,282	$252,131,127

Note 12. Commitments and Contingencies

At June 30, 2012, the University has outstanding commitments on various construction projects totaling approximately $4,800,000, most of which is related to Stuyvesant Hall. 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 13. Subsequent Events

The University began rental of commercial space in the Stuyvesant Hall building from Master Tenant, under a 6-year sublease agreement. The sublease commenced in August 2012 and expires in August 2018. Future minimum lease payments are $16,100 per month.

Master Tenant began subleasing residential space in the Stuyvesant Hall building to student residents on an annual basis in August 2012.

Stuyvesant Hall began receiving rental income from the Master Tenant under a 32-year master lease that commenced in August 2012 and expires in 2044. Future minimum rental income is $72,458 per month.