UNIVERSITY *of*

DAYTON

FINANCIAL REPORT

June 30, 2005

Comparative Summary Information

	2000–01	2001–02	2002–03	2003–04	2004–05
Endowment—Cost	$203,245,000	$219,408,000	$242,469,000	$257,942,000	$279,098,000
Endowment—Market	274,449,000	254,752,000	258,064,000	304,670,000	324,359,000
Physical Plant—Carrying Value (Excluding Depreciation)	378,761,000	405,988,000	436,510,000	481,144,000	529,886,000
Physical Plant—Insurable Value	598,000,000	600,000,000	610,000,000	698,000,000	722,000,000
Long Term Debt	202,912,000	228,540,000	208,953,000	243,895,000	276,082,000
Enrollment—Full-time—Undergraduate	6,611	6,617	6,552	6,582	6,675
Enrollment—Law School	448	423	457	475	542
Enrollment—Graduate School	2,729	2,674	2,583	2,703	2,793
Total Enrollment—Full- and Part-time	10,315	10,248	10,125	10,281	10,493
Degrees Awarded—Undergraduate	1,407	1,545	1,654	1,552	1,423
Degrees Awarded—Graduate	1,035	992	873	888	1,010

Officers of the Administration

Daniel J. Curran, Ph.D.
President

Fred P. Pestello, Ph.D.
Senior Vice President for Educational Affairs and Provost

Thomas E. Burkhardt
Vice President for Finance and Administrative Services

Joyce Carter
Vice President for Human Resources

Frances W. Evans
Vice President for University Advancement

Robert E. Johnson
Vice President for Enrollment Management

Theodore L. Kissell
Vice President and Director of Athletics

Michael V. McCabe, Ph.D.
Vice President for Research and Executive Director of the Research Institute

William C. Schuerman, Ph.D.
Vice President for Student Development and Dean of Students

Thomas J. Weckesser
Assistant Vice President for Finance

Davidine Rinehart
Comptroller

September 30, 2005

"The University of Dayton — Catholic, Marianist, innovative, and transformative — is a leader in higher education and one of the preeminent Catholic universities in the nation." So begins UD's newly refined ***Vision of Excellence****, a document that defines how we will fulfill our commitment to excellence.*

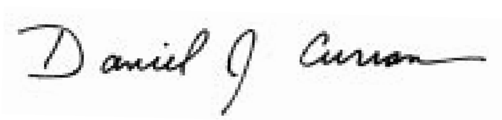
As an institution, we are building our future on a foundation of strength. We are receiving record numbers of applications from prospective students. We have enrolled a first-year class with the highest test scores in UD's history. We are on solid financial footing. We have acquired new property to expand our campus and our vision. We have a faculty, staff and student body committed not only to excellence but to transforming themselves and society.

At present, the University of Dayton is recognized as a top-tier national university and one of the top-10 national Catholic universities.

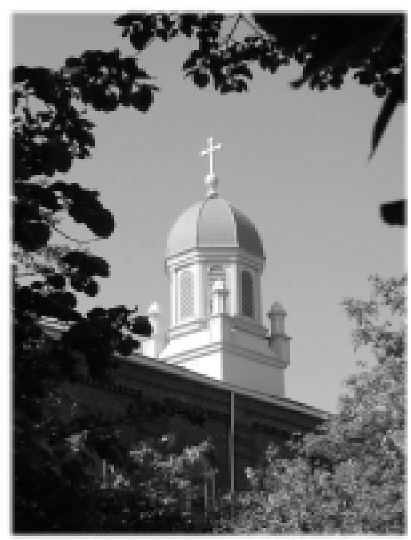
By 2020, we plan to have finished building on the newly acquired land and to have built our endowment past $1 billion. And, we intend that the University of Dayton will be recognized as a top-50 national private university and a top-five Catholic university.

I am grateful to all who have helped make UD a great university. And, I am grateful to all of you who, by expecting the best of yourselves and of the University, will ensure our bright and promising future.

Very truly yours,



Daniel J. Curran, Ph.D.
President



Immaculate Conception Chapel

September 30, 2005

We are happy to present, on the following pages, the audited financial statements of the University as of June 30, 2005. These pages present the financial status and the results of our operations for the year.

The University had an eventful year including the opening of the Marianist Hall residence facility, Art Street in the south neighborhood and, in June 2005, the acquisition of 49 acres of land adjacent to the campus on the west. These are some of the visible signs of growth and improvement that go with the gains we are seeing in our academic research and operating areas.

Our sponsored research grew to over $70 million in 2005, with the majority of this coming through UDRI. Our enrollment during 2005 was excellent and in August 2005, we welcomed a first-year class of 1,981 students. The law school now offers year-round studies, allowing students to complete their studies in five semesters. Our Campus Ministry Program continues to grow and involve more students in its many programs each year. Throughout all areas of the University, one can see continuing innovation and excellence among faculty and students.

While many things change, grow, and improve, we remain committed to our Marianist heritage and work to effectively steward the assets entrusted to us. We thank the many who support our mission and ask for God's blessings on them and our continuing efforts.

Very truly yours,

Thomas E. Burkhardt
Vice President for Finance
and Administrative Services

Mary and Jesus in Brass

University of Dayton

Statements of Financial Position

(in thousands)

	June 30 2005	June 30 2004
Assets		
Cash	**$ 310**	$ 306
Accounts receivable—less allowance of $1,555 in 2005 and $1,425 in 2004 *(Note 2)*	**24,349**	21,370
Pledges receivable—less allowance of $585 in 2005 and $613 in 2004 *(Note 3)*	**11,119**	11,649
Notes receivable—less allowance of $1,121 in 2005 and $1,139 in 2004 *(Note 2)*	**17,939**	16,597
Inventories	**2,628**	2,115
Prepaid expenses and other	**3,715**	2,289
Investments *(Note 4)*	**537,768**	506,017
Land, buildings, and equipment *(Note 5)*	**349,251**	308,044
Total assets	**$ 947,079**	$ 868,387
Liabilities		
Accounts payable	**$ 15,447**	$ 15,068
Accrued payroll	**8,025**	7,406
Accrued compensated absences	**5,604**	5,223
Accrued postretirement benefits *(Note 6)*	**43,006**	39,284
Other liabilities	**17,629**	16,978
Deferred income and student deposits	**21,644**	19,244
Indebtedness *(Note 7)*	**276,082**	243,895
Advances from government for federal loans	**11,588**	11,939
Total liabilities	**399,025**	359,037
Net assets *(Note 8)*		
Unrestricted	**445,928**	413,228
Temporarily restricted	**2,982**	4,653
Permanently restricted	**99,144**	91,469
Total net assets	**548,054**	509,350
Total liabilities and net assets	**$ 947,079**	$ 868,387

See accompanying notes.

University of Dayton

Statement of Activities

Year Ended June 30, 2005
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Student tuition and fees	**$ 169,273**	**$ -**	**$ -**	**$ 169,273**
Less student aid	**47,496**	**-**	**-**	**47,496**
	121,777	**-**	**-**	**121,777**
Private gifts and grants	**22,164**	**253**	**7,632**	**30,049**
Government grants and contracts	**64,622**	**-**	**-**	**64,622**
Investment return designated for current operations *(Note 4)*	**25,069**	**-**	**-**	**25,069**
Auxiliary enterprises	**58,344**	**-**	**-**	**58,344**
Other	**5,305**	**-**	**-**	**5,305**
	297,281	**253**	**7,632**	**305,166**
Net assets released from restrictions	**1,924**	**(1,924)**	**-**	**-**
Total revenues, gains, and other support	**299,205**	**(1,671)**	**7,632**	**305,166**
Expenditures				
Instruction	**95,751**	**-**	**-**	**95,751**
Administrative and general	**39,632**	**-**	**-**	**39,632**
Libraries	**8,962**	**-**	**-**	**8,962**
Sponsored academic projects	**10,472**	**-**	**-**	**10,472**
Organized research	**66,526**	**-**	**-**	**66,526**
Auxiliary enterprises	**57,391**	**-**	**-**	**57,391**
Actuarial change on annuity liability	**(207)**	**-**	**84**	**(123)**
Total expenditures	**278,527**	**-**	**84**	**278,611**
Change in net assets from operations	**20,678**	**(1,671)**	**7,548**	**26,555**
Investment return in excess of amounts designated for current operations *(Note 4)*	**12,022**	**-**	**127**	**12,149**
Change in net assets	**32,700**	**(1,671)**	**7,675**	**38,704**
Net assets at beginning of year	**413,228**	**4,653**	**91,469**	**509,350**
Net assets at end of year	**$ 445,928**	**$ 2,982**	**$ 99,144**	**$ 548,054**

See accompanying notes.

University of Dayton

Statement of Activities

Year ended June 30, 2004
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Student tuition and fees	$ 156,078	$ -	$ -	$ 156,078
Less student aid	44,462	-	-	44,462
	111,616	-	-	111,616
Private gifts and grants	17,166	2,147	9,396	28,709
Government grants and contracts	63,624	-	-	63,624
Investment return designated for current operations *(Note 4)*	22,442	-	-	22,442
Auxiliary enterprises	54,720	-	-	54,720
Other	5,386	-	-	5,386
	274,954	2,147	9,396	286,497
Net assets released from restrictions	2,099	(2,099)	-	-
Total revenues, gains, and other support	277,053	48	9,396	286,497
Expenditures				
Instruction	93,159	-	-	93,159
Administrative and general	39,100	-	-	39,100
Libraries	8,758	-	-	8,758
Sponsored academic projects	10,200	-	-	10,200
Organized research	64,204	-	-	64,204
Auxiliary enterprises	55,082	-	-	55,082
Actuarial change on annuity liability	(25)	-	1,062	1,037
Total expenditures	270,478	-	1,062	271,540
Change in net assets from operations	6,575	48	8,334	14,957
Investment return in excess of amounts designated for current operations *(Note 4)*	45,531	-	1,196	46,727
Change in net assets	52,106	48	9,530	61,684
Net assets at beginning of year	361,122	4,605	81,939	447,666
Net assets at end of year	$ 413,228	$ 4,653	$ 91,469	$ 509,350

See accompanying notes.

University of Dayton

Statements of Cash Flows

(in thousands)

	Year Ended June 30	
	2005	**2004**
Cash flows from operating activities		
Change in net assets	**$ 38,704**	$ 61,684
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**16,187**	15,277
Gifts for restricted purposes	**(7,715)**	(10,459)
Net realized and unrealized gains on investments	**(25,320)**	(59,412)
Income restricted for long-term investment	**261**	259
(Increase) decrease in receivables	**(3,791)**	7,651
(Increase) decrease in inventories and prepaid expenses and other	**(1,939)**	231
Increase in accounts payable, accrued liabilities, and other liabilities	**5,753**	9,851
Increase (decrease) in deferred income and student deposits	**2,400**	(1,023)
Net cash provided by operating activities	**24,540**	24,059
Cash flows from investing activities		
Income restricted for long-term investment	**(261)**	(259)
Proceeds from the sale of investments	**639,340**	531,923
Purchases of investments	**(640,317)**	(546,677)
Additions of land, buildings, and equipment —net of nominal disposals	**(42,288)**	(48,764)
Net cash used in investing activities	**(43,526)**	(63,777)
Cash flows from financing activities		
Decrease in advances from government for federal loans	**(351)**	(908)
Gifts for restricted purposes	**7,715**	10,459
Proceeds from bond issuance	**49,700**	55,850
Premium on bond issuance	**2,127**	-
Payments on indebtedness	**(40,201)**	(25,678)
Net cash provided by financing activities	**18,990**	39,723
Net increase in cash	**4**	5
Cash at beginning of the year	**306**	301
Cash at end of the year	**$ 310**	$ 306
Non-cash Investing and Financing Activity		
Note payable	$ 20,000	-
Acquisition of property under note payable	20,000	-

See accompanying notes.

1. Organization

The University of Dayton (the University) is an independent, coeducational institution founded and sponsored by the Society of Mary (the Marianists), a Roman Catholic Institute of Consecrated Life. The University is located in Dayton, Ohio and is one of the nation's largest Catholic institutions of higher learning. Its students are primarily from Ohio and nine other midwestern and eastern states. Students also are recruited on a national basis and from foreign nations. The student population approximates 6,500 undergraduate and 3,000 graduate students. The University awards baccalaureate, masters, and selected doctoral degrees in programs within the College of Arts and Sciences and four professional schools: the School of Business Administration, the School of Education and Allied Professions, the School of Engineering, and the School of Law. Through its Research Institute, the University also directs over $70,000,000 of research contracts, the majority of which is government funded.

2. Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying financial statements.

Basis of Presentation

Net assets are classified into three categories: unrestricted net assets, which have no donor-imposed restrictions, temporarily restricted net assets, which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets, which have donor-imposed restrictions which do not expire.

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 that 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.

Net appreciation on endowment accounts, whose income is unrestricted as to use, is reported as an increase to unrestricted net assets, unless such appreciation has been permanently restricted by the donor. Accordingly, net appreciation on endowment accounts is classified as part of unrestricted and permanently restricted net assets based on restrictions established by donors.

2. Accounting Policies (continued)

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 to be used to acquire land, buildings, and equipment without such donor stipulations 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.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the change of restrictions specified by the donors. In 2005, the University released $1,924,000 in restricted assets ($1,228,000 for instruction and $696,000 for auxiliary enterprises). In 2004, the University released $2,099,000 in restricted assets ($939,000 for instruction, $500,000 for administrative and general and $660,000 for auxiliary enterprises).

Measure of Operations

The change in unrestricted net assets from operations includes substantially all of the activity related to unrestricted net assets. Amounts not included in the measure of operations consist of any investment return, which is in excess from the established investment spending policy, and significant items of an unusual or nonrecurring nature. The Board of Trustees designates a specified amount of the expected investment return as support of current operations; any remainder is to be reinvested to maintain earnings growth for support of future years' operations. Amounts designated for current operations include the established total return spending policy plus amounts designated for certain expenses, including interest on debt and postretirement benefits.

State law allows the Board of Trustees to appropriate so much of the net appreciation on endowment accounts as is prudent considering the University's present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions. The endowment spending policy is based on a spending rate established by the University's Board of Trustees. This rate represents the expected long-term return on endowment investments less an allowance for inflation.

2. Accounting Policies (continued)

Related-Party Transactions

The University was founded by the Cincinnati Province of the Society of Mary (Marianists), a Roman Catholic Institute of Consecrated Life. The Cincinnati Province merged with three other United States provinces on July 1, 2002 to become the Marianist Province of the United States. The Marianists are a separate entity from the University. Members of the Province serve on the faculty and staff of the University under employment agreements. The members of the Province are not participants in the University's retirement program; however, the University makes a payment to the Marianist Province of the United States for their related salaries along with an amount for benefits. The contribution was $1,561,000 in 2005, and $1,483,000 in 2004. It is the intent of the University and the Marianists that compensation paid to the Marianist Province of the United States for the services provided by the members of the Province are paid at a rate comparable to those of other employees in similar positions. The Marianist Province of the United States contributes funds to the University, which are recorded as gifts. These gifts were $311,000 and $953,000 in 2005 and 2004, respectively.

Liquidity

Assets and liabilities are listed in their estimated order of liquidity. For those accounts for which such liquidity is unclear, additional disclosures have been made in the accompanying notes to the University's financial statements.

Grants and Contracts

Grants and contracts consist primarily of contractual agreements with governmental and private entities for the conduct of research and other sponsored programs. These agreements represent exchange transactions between the University and the grantors and are accordingly, included in unrestricted net assets. Revenues are recognized on grants and contracts as expenses are incurred and amounts received in advance are reflected as deferred income.

Cash

Cash represents amounts held by financial institutions. Money market funds and certificates of deposit are included in investments.

2. Accounting Policies (continued)

Accounts Receivable

Accounts receivable consist of amounts due from students for tuition and other fees and from other third parties for research contract agreements. The allowance for doubtful accounts is determined based on estimated expected collections on these accounts. Amounts are recorded at estimated net realizable value.

Notes Receivable

Notes receivable consist primarily of loans made to students under United States government loan programs. The loans are stated at net realizable value.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value.

Investment partnerships, including investments in private equity funds, limited partnerships and real estate partnerships without readily determinable fair values, are valued based upon judgments by the fund or partnership managers and respective valuation committees that include original costs, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent financing transaction. In management's opinion, the stated values approximate fair value as determined by the respective managers. Due to the inherent uncertainty of valuation, the estimated fair values may differ significantly from values that would have been used had a readily available market value for the investments existed, and the differences could be material.

Other investments are recorded at cost or, if acquired by gift, at fair value at the date of the gift.

Land, Buildings, and Equipment

The cost of repairs and improvements is generally charged to expense in the year incurred. Depreciation of buildings and equipment is recorded using the straight-line method over their respective estimated useful lives of 45 years and 5 to 15 years, respectively.

2. Accounting Policies (continued)

Advances from Government for Federal Loans

Funds provided by the United States government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying financial statements.

Income Taxes

The University qualifies as an organization exempt from federal income taxation under Section 501(c) (3) of the Internal Revenue Code.

Use of Estimates

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

3. Pledges Receivable

As of June 30, 2005, the University had received unconditional promises from donors totaling $11,704,000 discounted at 7.00% ($12,262,000 discounted at 7.00% at June 30, 2004), on which management has set up an allowance for uncollectible promises of $585,000 ($613,000 at June 30, 2004). Most unconditional promises are restricted by donors for scholarships and general operating support purposes and are due as follows (in thousands):

	June 30, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 3,616	$ 1,790	$ 2,570	$ 7,976
One to five years	571	1,329	349	2,249
More than five years	299	20	1,160	1,479
	$ 4,486	$ 3,139	$ 4,079	$ 11,704

3. Pledges Receivable (continued)

	June 30, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 1,933	$ 2,743	$ 2,332	$ 7,008
One to five years	1,059	2,113	533	3,705
More than five years	354	41	1,154	1,549
	$ 3,346	$ 4,897	$ 4,019	$ 12,262

The amounts are recorded at the estimated present value of future cash flows.

4. Investments

The cost of investments and quoted market value (exclusive of accrued interest) is reflected in the following schedule (in thousands):

	June 30, 2005		June 30, 2004	
	Market Value	Cost	Market Value	Cost
Certificates of deposit and money market funds	**$ 66,160**	**$ 66,160**	$ 56,568	$ 56,568
Equities	**354,075**	**300,133**	348,332	292,059
Fixed securities and bonds	**93,505**	**92,786**	88,986	88,723
Investment partnerships	**13,389**	**12,558**	9,055	7,397
	527,129	**471,637**	502,941	444,747
Real estate (cost approximates market)	**10,639**	**10,639**	3,076	3,076
Total	**$ 537,768**	**$ 482,276**	$ 506,017	$ 447,823

4. Investments (continued)

Of the June 30, 2005 total market value of $537,768,000, approximately $470,000,000 is invested in the University's Long-Term Investment Pool. This pool invests the University's endowment funds as well as other long-term assets. Since the pool is invested on a long-term basis, a large percentage of the pool is invested in equities, which are subject to market fluctuations. Equity markets have experienced a slight increase since June 30, 2005. The market value of the Long-Term Investment Pool at September 30, 2005 was approximately $490,000,000.

The following schedules summarize the investment return and its classification in the statements of activities (in thousands):

	Year ended June 30, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 10,232	$ –	$ 261	$ 10,493
Realized and unrealized gains	27,271	–	772	28,043
Gross return on investments	37,503	–	1,033	38,536
Investment return designated for annuity obligations	(412)	–	(906)	(1,318)
Total return on investments	37,091	–	127	37,218
Investment return designated for current operations	(25,069)	–	–	(25,069)
Investment return in excess of amounts designated for current operations	$ 12,022	$ –	$ 127	$ 12,149

4. Investments (continued)

	Year ended June 30, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest earnings	$ 10,707	$ –	$ 259	$ 10,966
Realized and unrealized gains	57,693	–	1,799	59,492
Gross return on investments	68,400	–	2,058	70,458
Investment return designated for annuity obligations	(427)	–	(862)	(1,289)
Total return on investments	67,973	–	1,196	69,169
Investment return designated for current operations	(22,442)	–	–	(22,442)
Investment return in excess of amounts designated for current operations	$ 45,531	$ –	$ 1,196	$ 46,727

5. Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at June 30 (in thousands):

	2005	**2004**
Buildings	**$ 329,158**	$ 279,207
Equipment	**90,366**	93,551
Land and land improvements	**45,382**	32,926
Library books	**41,953**	39,484
Renovations-in-progress	**23,027**	35,976
	529,886	481,144
Accumulated depreciation	**(180,635)**	(173,100)
	$ 349,251	$ 308,044

6. Retirement Plans

The University has a defined contribution plan. Retirement benefits are provided for the faculty and staff through Teachers Insurance and Annuity Association (TIAA), a national organization used to fund retirement benefits for educational institutions. The University purchases individual retirement annuities through TIAA to fund retirement benefits. The University's cost for these benefits was $6,657,000 in 2005 and $6,334,000 in 2004.

The University provides health care and life insurance benefits for retired faculty and staff. Faculty and staff are eligible if they have worked 20 years and attained age 55 or 10 years and attained age 60 while in service with the University. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance.

Postretirement benefit expense includes the following components as of June 30 (in thousands):

	2005	2004
Service cost of benefits earned	**$ 1,261**	$ 1,386
Interest cost on liability	**3,380**	3,675
Amortization of transition obligation	**403**	805
Amortization of prior service cost	**(59)**	–
Amortization of loss	**592**	1,044
Net periodic postretirement benefit cost	**$ 5,577**	$ 6,910

6. Retirement Plans (continued)

The following table summarizes the balance sheet impact, as well as the benefit obligations, and funded status of the postretirement benefit plan with a measurement date as of June 30 (in thousands).

	2005	2004
Change in projected benefit obligations		
Benefit obligation at beginning of year	**$ 59,250**	$ 64,315
Service cost	**1,261**	1,386
Interest cost	**3,380**	3,675
Plan amendment	**(8,082)**	–
Actuarial loss (gain)	**5,151**	(8,054)
Benefits paid	**(1,854)**	(2,072)
Benefit obligation at end of year	**59,106**	59,250
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	**–**	–
Employer contributions	**1,854**	2,072
Benefits paid	**(1,854)**	(2,072)
Fair value of plan assets at end of year	**–**	–
Reconciliation of funded status		
Projected benefit obligation in excess of fair value of plan assets	**59,106**	59,250
Unrecognized transition obligation	**–**	(7,245)
Unrecognized prior service cost	**1,180**	–
Unrecognized actuarial loss	**(17,280)**	(12,721)
Net balance sheet liability	**$ 43,006**	$ 39,284

6. Retirement Plans (continued)

The following weighted average assumptions were made in determining the postretirement benefit obligation and the postretirement benefit cost as of June 30:

	2005	2004
Weighted average discount rate used to determine the projected benefit obligation	**5.50%**	6.25%
Weighted average discount rate assumption used to determine the net periodic benefit cost	**6.25%**	6.00%

The health care cost trend rate assumption has a significant effect on the amounts reported in the financial statements. The following health care cost trend rates were assumed in the determination of the postretirement benefit obligation and net periodic benefit cost as of June 30:

	2005	2004
Medical cost trend rate:		
Current year	**9.00%**	9.50%
Ultimate	**5.00%**	5.00%
Prescription drug costs trend rate:		
Current year	**11.00%**	13.00%
Ultimate	**5.50%**	5.50%
Administration costs trend rate:		
Current year	**3.00%**	3.00%
Ultimate	**3.00%**	3.00%
Year that rates reach the ultimate trend rate	**2013**	2013

A one-percentage point change in the assumed healthcare cost trend rate would have the following effect on the postretirement benefit obligation and the net periodic benefit cost (in thousands):

	1.00% increase	1.00% decrease
Effect on postretirement benefit obligation	**$ 6,936**	$ (5,907)
Effect on net periodic benefit cost	**614**	(521)

6. Retirement Plans (continued)

The following benefit payments, which reflect expected future service and the affect of the Medicare subsidy, as appropriate, are expected to be paid (in thousands):

2006	$ 2,431
2007	2,621
2008	2,908
2009	3,212
2010	3,468
2011-2015	22,167

The University plans to make contributions to the plan of $2,431,000 in 2006.

On December 8, 2003 the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act), which introduces a Medicare prescription drug benefit as well as a federal subsidy to sponsors of retiree health care benefit plans, was enacted. The University previously elected to reflect the effects of the Act retroactively to the December 8, 2003 implementation date. The Act reduced the accumulated benefit obligation by $4,600,000 at June 30, 2004 and expense for the year ended June 30, 2004 was reduced by $373,000.

During 2005, the University amended the plan to revise the prescription drug benefits provided by the plan to coordinate with benefits provided by Medicare rather than directly apply for the federal subsidy. At the same time, the University implemented a cap on its future contributions to retiree medical costs for all participants except those who retired prior to July 1, 1994. The combined effect of these changes was to reduce the accumulated benefit obligation by $8,082,000 and reduce expense for the fiscal year ended June 30, 2005 by the following:

Service cost	$ 46
Interest cost	244
Amortization	444
Total	$ 734

7. Indebtedness

The University has financed certain buildings and facilities through mortgage bonds, which are structured as long-term leases with the State of Ohio Higher Education Facility Commission. Under the terms of these indentures, the buildings and facilities (historical cost totaling over $223,000,000) are pledged as security as well as the revenues from the respective facilities and the full faith and credit of the University. Upon the termination of the leases, (on or before December 1, 2005 for the revenue bonds of 1991, on or before December 1, 2007 for the mortgage revenue bonds of 1992, on or before December 1, 2022 for the revenue bonds of 1997, on or before December 1, 2018 for the revenue bonds of 1998, on or before December 1, 2030 for the revenue bonds of 2000, on or before December 1, 2017 for the revenue bonds of 2001, on or before December 1, 2032 for the revenue bonds of 2002, and on or before December 1, 2034 for the revenue bonds of 2003 and on or before December 1, 2035 for the revenue bonds of 2004), ownership of the respective facilities will be transferred to the University.

Indebtedness at June 30 consists of the following:

	2005	**2004**
	(in thousands)	
$18,899,000 Mortgage Revenue Bonds of 1991, interest rates on bonds of 6.75% for those bonds coming due in December 2005; each June 1 and December 1, the University is required to pay amounts totaling approximately $350,000 annually for principal and interest payments due.	**$ 315**	$ 654
$26,998,000 Revenue Bonds of 1992, interest rate of 6.70% for those bonds coming due in December 2007; The University is required to pay amounts totaling approximately $1,170,000 annually for principal and interest payments due.	**1,334**	1,858

7. Indebtedness (continued)

	2005	2004
$38,075,000 Revenue bonds of 1994, interest rates on bonds due in 1994 of 4.55% steadily increasing to 5.80% for those bonds coming due in 2019; each June 1 and December 1, the University is required to pay amounts totaling approximately $2,038,000 annually for principal and interest payments due; $22,253,000 of the 2003 bonds were set aside in a trust to repay $20,375,000 and $9,493,000 of the 2004 bonds were set aside in a trust to repay $8,670,000 of the 1994 bonds at their call date (December 1, 2004) as well as the principal and interest to that date; paid off in fiscal year 2005.	–	30,905
$39,290,000 Revenue Bonds of 1997, interest rates on bonds due in 1997 of 3.60% steadily increasing to 5.40% for those bonds coming due in 2023; each June 1 and December 1, the University is required to pay amounts totaling approximately $2,790,000 annually for principal and interest payments due; $7,013,000 of the 2004 bonds have been set aside in a trust to repay $6,495,000 of the 1997 bonds at their call date (December 1, 2007), as well as the principal and interest to that date.	**34,565**	35,320
$26,945,000 Revenue Bonds of 1998, interest rates on bonds due in 1998 of 3.60% steadily increasing to 5.00% for those bonds coming due in 2018; each June 1 and December 1, the University is required to pay amounts totaling approximately $1,900,000 annually for principal and interest payments due.	**15,745**	17,795
$32,545,000 Revenue bonds of 2000, interest rates on bonds due in 2001 of 5.00% steadily increasing to 5.50% for those bonds coming due in 2030; each June 1 and December 1, the University is required to pay amounts totaling approximately $2,412,000 annually for principal and interest payments due.	**31,440**	31,740

7. Indebtedness (continued)

	2005	2004
$29,540,000 Revenue bonds of 2001, interest rates on bonds due in 2001 of 3.30% steadily increasing to 5.375% for those bonds coming due in 2017; each June 1 and December 1, the University is required to pay amounts totaling approximately $2,720,000 annually for principal and interest payments due. The majority of the proceeds have been escrowed to refund portions of the 1991 and 1992 bonds.	**28,090**	28,400
Premium on 2001 Revenue Bonds	**905**	1,035
$28,000,000 Revenue Bonds of 2002, interest rates on bonds are variable and set weekly through a Dutch Auction (2.05% at June 30, 2005); principal payments begin December 1, 2020 and continue through 2033.	**28,000**	28,000
$55,850,000 Revenue Bonds of 2003, interest rates on bonds of 1.35% until January 2005 when interest rates became variable and set weekly through a Dutch Auction (2.20% at June 30, 2005); principal payments began December 1, 2004 and continue through 2034.	**54,975**	55,850
$49,700,000 Revenue Bonds of 2004, interest rates on bonds due in 2006 of 4.00% steadily increasing to 5.00% for those bonds coming due in 2035; each June 1 and December 1, the University is required to pay amounts totaling approximately $4,235,000 annually for principal and interest payments due. A portion of the proceeds were escrowed to refund portions of the 1994 and 1997 bonds.	**49,700**	–
Premium on 2004 Revenue Bonds	**1,894**	–

7. Indebtedness (continued)

	2005	2004
$10,000,000 Lease Purchase Agreement of 1999 with Key Corporate Capital and the Ohio Higher Education Facility Commission; lease draws were used by the University for the purchase of various equipment; interest rates range from 4.80% to 6.10%; each September 1 and March 1, the University is required to pay amounts totaling approximately $1,570,000 annually for principal and interest payments due.	**1,830**	3,617
$15,000,000 Lease Purchase Agreement of 2001 with Key Corporate Capital and the Ohio Higher Educational Facility Commission; lease draws to be used by the University for the purchase of various equipment; interest rates range from 2.74% to 4.30%; each September 28 and March 28, the University is required to pay amounts totaling approximately $2,648,000 annually for principal and interest payments due. Proceeds were used to purchase equipment of $923,000 in 2005, which is a non-cash transaction for cash flow purposes.	**6,576**	7,949
$20,000,000 note payable to NCR Corporation dated June 13, 2005 for purchase of land and a building adjacent to the western edge of the main campus. Payments of $5,000,000 are due January 1, 2006 (5.00% interest), January 1, 2007 (5.00% interest), January 1, 2008 (3.00% interest), January 1, 2009 (3.00% interest).	**20,000**	–
Various other notes payable	**713**	772
	$ 276,082	$ 243,895

The purchase agreement for the land and building acquired from NCR Corporation, financed through the $20,000,000 note payable, includes a net profit sharing provision. In accordance with the terms of the agreement, the University is required to distribute 50% of the future net profits earned on the acquired property that is not utilized for University operations as defined in the agreement, not to exceed $7,000,000. The agreement does not provide for any guaranteed minimum net profit share distributions on an annual basis. As of June 30, 2005, there was no profit on the specified property.

7. Indebtedness (continued)

The combined aggregate amount of maturities for indebtedness at the following periods are (in thousands):

	Bonds Outstanding June 30, 2005
2006	$ 16,544
2007	15,668
2008	21,478
2009	15,299
2010	9,999
2011–2015	51,974
2016–2020	44,930
2021–2025	29,428
2026-2030	37,573
2031-2035	33,189
Total	$ 276,082

As of June 30, 2005, the University had met all of the required repair and replacement reserve and debt service requirements.

Cash paid for interest expense was $11,374,000 ($10,130,000 in 2004). Interest expense was $10,526,000 ($10,481,000 in 2004).

As of June 30, 2005, the University has several renovations in progress including the new RecPlex facility, Miriam Hall, Kettering Labs, and Campus South. Total commitments related to these projects amounted to approximately $14,000,000. These construction projects are financed through operations, the 2004 bond offering mentioned above and additional financing planned for fiscal year 2006.

8. Nature and Amount of Temporarily and Permanently Restricted Net Assets

The temporarily restricted net assets at June 30, 2005 consisted of $1,494,000 for instruction, $454,000 for administration and general and $1,034,000 for auxiliary enterprises. The temporarily restricted net assets at June 30, 2004 consisted of $2,943,000 for instruction and $455,000 for administration and general and $1,255,000 for auxiliary enterprises.

Permanently restricted net assets are restricted for the following purposes (in thousands):

	June 30	
	2005	**2004**
Instruction	**$ 33,852**	$ 33,642
Administrative and general	**9,132**	8,289
Organized research	**15**	15
Libraries	**3,658**	3,632
Student aid	**52,391**	45,795
Auxiliary enterprises	**96**	96
	$ 99,144	$ 91,469

9. Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable, and deferred income and student deposits approximate fair value because of the short maturity of these financial instruments. The carrying value, which is the fair value of investments, is based upon values provided by an external investment manager or quoted market values. In the limited cases where such values are not available, historical cost is used as an estimate of market value.

A reasonable estimate of the fair value of the notes receivable and advances from government for federal loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designees.

The carrying amount of pledges receivable approximates fair value as these donations are recorded at the net present value of amount pledged.

The fair value of indebtedness, which consists primarily of bonds payable, is approximately $243,000,000.

It is not practicable to estimate the fair value of grants and contracts receivables, since they contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

Report of Independent Auditors

The Board of Trustees
University of Dayton

We have audited the accompanying statements of financial position of the University of Dayton (the University) as of June 30, 2005 and 2004 and the related 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2005 and 2004 and the related changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 6, in 2004 the University adopted Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.*

Ernst + Young LLP

September 30, 2005
Dayton, Ohio

Management Discussion and Analysis

At June 30, 2005, the University's total assets increased to $947 million from $868 million in 2004. Investments increased by $32 million to $538 million for 2005. The University's indebtedness increased by $32 million, due to the issuance of $52 million of new bond debt in December 2004, of which $36 million was for new building projects and $16 million was set aside for early repayment of a prior bond issue. In June 2005, the University issued a note payable to NCR Corporation for $20 million, for the purchase of the NCR property adjacent to the western edge of the main campus running from Brown Street to the Great Miami River. Decreases to indebtedness included normal debt repayments of approximately $10 million and an early refunding of $30 million of the 1994 bonds. Land, buildings, and equipment increased by $41 million as work was completed on ArtStreet, a new student neighborhood living/learning space; the Arena sports complex; upgrades to campus housing; renovations to Kettering Labs, Kennedy Union, and the Science Connector; and the addition of the NCR property. The University continued work in 2005 on the RecPlex, a new student recreation complex, slated to be completed by January 2006.

Condensed Statement of Financial Position
As of June 30
(In thousands)

	2005	2004	Increase (Decrease)	Percent Change
Current Assets	$ 31,002	$ 26,080	$ 4,922	18.87%
Pledges, Notes Receivable	29,058	28,246	812	2.87%
Investments	537,768	506,017	31,751	6.27%
Land, Buildings, and Equipment	349,251	308,044	41,207	13.38%
Total Assets	$ 947,079	$ 868,387	$ 78,692	9.06%
Current Liabilities	$ 68,349	$ 63,919	$ 4,430	6.93%
Accrued Postretirement Benefits	43,006	39,284	3,722	9.47%
Advances from Government	11,588	11,939	(351)	-2.94%
Indebtedness	276,082	243,895	32,187	13.20%
Total Liabilities	$ 399,025	$ 359,037	$ 39,988	11.14%
Unrestricted	$ 445,928	$ 413,228	$ 32,700	7.91%
Temporarily Restricted	2,982	4,653	(1,671)	-35.91%
Permanently Restricted	99,144	91,469	7,675	8.39%
Total Net Assets	$ 548,054	$ 509,350	$ 38,704	7.60%

Operating revenues increased $19 million, including a $10 million increase in tuition revenue as a result of a 6% increase in tuition rates and a $4 million increase in auxiliary revenues as a result of increases in housing, food service, and athletic revenues. The University's spending policy on the long term investment pool allowed for approximately a 5.39% spending rate for fiscal year 2005. Total return on investments for the year was a positive $37 million or 8.5%. The University's spending policy allocated $25 million to be used for operations with $12 million considered a non-operating gain.

Operating expenses increased to $279 million from $272 million, a $7 million increase. Student instruction expenses increased by $3 million; auxiliary expenses increased by $2 million; and research subcontract expenses increased by $2 million.

Condensed Operating Results for the Years Ended
As of June 30
(In thousands)

	2005	2004	Increase (Decrease)	Percent Change
Operating Revenues, Gains, and Other Support				
Student Tuition and Fees	$ 121,777	$ 111,616	$ 10,161	9.10%
Auxiliary	58,344	54,720	3,624	6.62%
Private Gifts, Grants and Other	35,354	34,095	1,259	3.69%
Government Grants	64,622	63,624	998	1.57%
Investment Return Used for Operations	25,069	22,442	2,627	11.71%
Total Revenues	305,166	286,497	18,669	6.52%
Less Expenditures				
Instruction and Library	104,713	101,917	2,796	2.74%
Auxiliary	57,391	55,082	2,309	4.19%
Organized Research and Sponsored Projects	76,998	74,404	2,594	3.49%
Administrative and General and Other	39,509	40,137	(628)	-1.56%
Total Expenditures	278,611	271,540	7,071	2.60%
Net Operating Revenue	26,555	14,957	$ 11,598	77.54%
Investment Return in Excess (Deficit) of Amounts Used for Operations	12,149	46,727		
Change in Net Assets	38,704	61,684		
Net Assets, Beginning of Year	509,350	447,666		
Net Assets, End of Year	$ 548,054	$ 509,350		

Investments include funds held for operating needs, short-term investments held for the repayment of bonds, and the long-term investment pool. The long-term investment pool includes endowment funds, designated funds, and some funds used to support annuities and life income contracts. The University invests these funds primarily through investment managers who are selected and monitored by the Investment Committee. The allocation of the investment pool is as follows:

Market Values of Investments
As of June 30
(In thousands)

	2005	2004	Increase (Decrease)	Percent Change
Long Term Investment Pool				
U.S. Equities	$ 230,268	$ 253,563	$ (23,295)	-9.19%
International Equities	86,549	94,373	(7,824)	-8.29%
Global Equities	35,540	-	35,540	N/A
Total Equities	352,357	347,936	4,421	1.27%
Cash & Equivalents	27,889	31,571	(3,682)	-11.66%
Fixed Income	76,997	61,419	15,578	25.36%
Alternative Investments	13,849	9,542	4,307	45.14%
	$ 471,092	$ 450,468	$ 20,624	4.58%
Other Investments				
U.S. Equities	$ 1,718	$ 396	$ 1,322	333.84%
Cash & Equivalents	38,271	24,997	13,274	53.10%
Fixed Income	16,508	27,567	(11,059)	-40.12%
Alternative Investments	10,179	2,589	7,590	293.16%
	$ 66,676	$ 55,549	$ 11,127	20.03%
Total Investments	$ 537,768	$ 506,017	$ 31,751	6.27%

Members of the Board

2005–2006

UNIVERSITY *of* DAYTON