UNIVERSITY *of*

DAYTON

Financial Report

June 30, 2009

Comparative Summary Information

	2004–05	2005–06	2006–07	2007–08	2008–09
Endowment—Cost	$279,098,000	$311,342,000	$325,366,000	$349,238,000	$385,513,000
Endowment—Market	324,359,000	353,424,000	410,355,000	369,573,000	328,968,000
Physical Plant—Carrying Value (Excluding Depreciation)	529,886,000	561,711,000	596,763,000	619,345,000	651,052,000
Physical Plant—Insurable Value	722,000,000	826,535,000	833,067,000	845,059,000	881,682,000
Long Term Debt	276,082,000	260,423,000	317,843,000	284,497,000	303,032,000
Enrollment—Full-time—Undergraduate	6,675	6,913	6,925	6,845	7,136
Enrollment—Law School	542	468	449	425	484
Enrollment—Graduate School	2,793	2,673	2,580	2,536	2,705
Total Enrollment—Full and Part-time	10,493	10,567	10,502	10,395	10,920
Degrees Awarded—Undergraduate	1,423	1,477	1,577	1,584	1,738
Degrees Awarded—Graduate	1,010	993	998	889	987

Officers of the Administration

Daniel J. Curran, Ph.D.
President

Joseph E. Saliba, Ph.D.
Provost

Thomas E. Burkhardt
Vice President for Finance and Administrative Services

Joyce M. Carter
Vice President for Human Resources

Sundar Kumarasamy
Vice President for Enrollment Management

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Vice President for University Advancement

Sister Annette T. Schmeling, RSCJ
Vice President for Student Development and Dean of Students

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Vice President and Director for Athletics

Thomas J. Weckesser
Assistant Vice President for Finance

Lisa S. Mastrobuono
Chief Accounting Officer

October 1, 2009

In the face of economic downturn and shrinking numbers of high school students in some of our traditional markets, over the course of the past year, the University of Dayton successfully recruited a fall 2009 entering class that is the best prepared academically in the history of the institution. We also have increased our diversity through increased enrollment among Hispanic, Asian and international students. Forty-five percent of this class is from outside of Ohio.

Last year also brought successes in sponsored research, which saw a 14 percent increase over the previous year to a record $96.5 million. The University is involved in, and leading many governmental, business and education partnerships that are already spurring the economy throughout the region and the state.

The University's successes are drawing increasing national recognition. To its status of ranking in the top tier of national universities and in the top 10 of Catholic universities, the University recently was placed by U.S. News & World Report in a group of 50 institutions — including Boston College, Georgetown, Notre Dame and the eight Ivies — labeled "Great Schools, Great Prices."

These are achievements and recognition that come only to institutions that have dedicated and committed supporters, faculty and staff. It's no wonder then that, according to a survey by The Chronicle of Higher Education, the University of Dayton has one of the 10 most loyal work forces in the country among universities of its size.

It is because of these individuals who have seen the signs of the times and who have worked together during a very challenging economic environment in our nation, we are ensured that the University of Dayton will not react to the future but will shape it.

Sincerely,

Daniel J Curran

Daniel J. Curran, Ph.D.
President

October 1, 2009

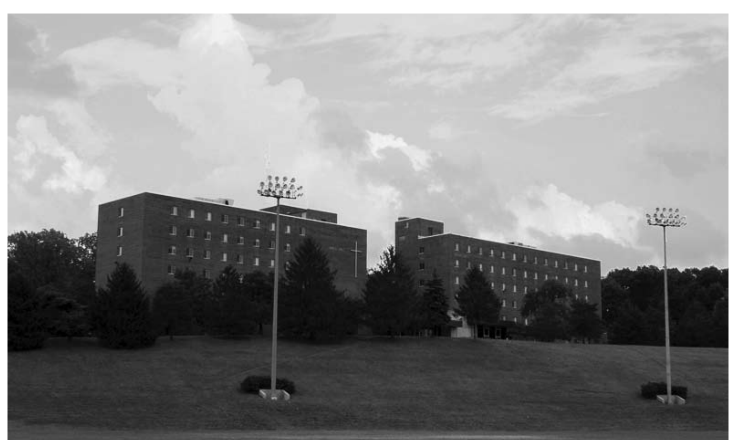
In Fiscal Year 2009, the University continued to move forward on many of its strategic goals. The University was able to achieve a significant change in unrestricted net assets for normal operating activities of over $39 million. One notable achievement includes net tuition revenue exceeding $164 million. Our research areas, including UDRI and academic areas, were able to generate over $96 million in total revenues. And, our Advancement Division was able to raise significant gifts, which help our students and faculty through scholarship support. These revenue increases, coupled with controlled and prudent spending, helped UD achieve the strong position results from operations.

The University reports realized and unrealized gains and losses due to investment activities, gains or losses on financial instruments such as swaps, and other activities that are non-recurring or not related to our mission as non-operating items. The significant losses in financial markets, which occurred primarily from September through March of the fiscal year, are by far the worst we have encountered in recent years. Like many other universities and not-for-profit institutions, we suffered very significant losses. In 2009 a decrease of $115 million in unrestricted net assets from non-operating activities was driven primarily by these events. In total, the University had a decrease in total net assets of $103 million for the year. There has been some recovery in markets since June 30, 2009, and we have participated in that recovery. The Investment Committee of the Board of Trustees has taken steps to allow the University to operate its portfolio more tactically.

The University of Dayton plays an important role in the world and in our region, providing a very unique education to students to give them the ability to work in an ever complex world and to appreciate the role and need for servant leaders. We are always appreciative of all that has been entrusted to us and strive to invest in our mission and manage resources wisely.

Very truly yours,

Thomas E. Burkhardt
Vice President for Finance and Administrative Services



Recently renovated Stuart Hall

University of Dayton

Statements of Financial Position

(In Thousands)

	June 30	
	2009	**2008**
Assets		
Cash	**$ 330**	$ 325
Collateral held for securities lending agreement (*Note 2*)	**27,172**	57,357
Accounts receivable – less allowance of $2,028 in 2009 and $1,778 in 2008 *(Note 2)*	**46,355**	36,790
Pledges receivable – less allowance of $1,231 in 2009 and $992 in 2008 *(Note 3)*	**23,381**	18,845
Notes receivable – less allowance of $1,415 in 2009 and $1,135 in 2008 *(Note 2)*	**16,875**	17,509
Inventories	**2,712**	2,963
Prepaid expenses and other	**2,448**	2,445
Investments – includes $5,000 in 2009 and $28,000 in 2008 of collateral on deposit related to note payable (*Note 4*)	**509,761**	614,897
Land, buildings, and equipment *(Note 5)*	**410,807**	397,846
Total assets	**$ 1,039,841**	$ 1,148,977
Liabilities		
Accounts payable	**$ 19,113**	$ 15,209
Accrued payroll	**10,004**	9,289
Accrued compensated absences	**10,198**	9,827
Liability under securities lending agreement (*Note 2*)	**28,370**	57,357
Accrued postretirement benefits *(Note 6)*	**50,679**	53,060
Other liabilities	**23,404**	22,417
Deferred income and student deposits	**26,530**	25,180
Indebtedness *(Note 7)*	**303,032**	284,497
Advances from government for federal loans	**12,097**	12,400
Total liabilities	**483,427**	489,236
Net assets *(Note 8)*		
Unrestricted	**376,270**	534,096
Temporarily restricted	**55,659**	12,350
Permanently restricted	**124,485**	113,295
Total net assets	**556,414**	659,741
Total liabilities and net assets	**$ 1,039,841**	$ 1,148,977

See accompanying notes.

University of Dayton

Statement of Activities

Year Ended June 30, 2009
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support				
Student tuition and fees	**$ 237,162**	**$ –**	**$ –**	**$ 237,162**
Less student aid	**72,567**	**–**	**–**	**72,567**
	164,595	**–**	**–**	**164,595**
Private gifts and grants	**38,789**	**806**	**11,115**	**50,710**
Government grants and contracts	**87,990**	**–**	**–**	**87,990**
Investment return designated for current operations *(Note 4)*	**28,994**	**–**	**–**	**28,994**
Auxiliary enterprises	**73,863**	**–**	**–**	**73,863**
Other	**4,468**	**–**	**–**	**4,468**
	398,699	**806**	**11,115**	**410,620**
Net assets released from restrictions	**571**	**(571)**	**–**	**–**
Total revenue, gains, and other support	**399,270**	**235**	**11,115**	**410,620**
Expenditures				
Instruction	**117,219**	**–**	**–**	**117,219**
Administrative and general	**51,815**	**4,034**	**–**	**55,849**
Libraries	**10,016**	**–**	**–**	**10,016**
Sponsored academic projects	**14,322**	**–**	**–**	**14,322**
Organized research	**91,962**	**–**	**–**	**91,962**
Auxiliary enterprises	**74,436**	**–**	**–**	**74,436**
Actuarial change on annuity liability	**–**	**(4,144)**	**–**	**(4,144)**
Total expenditures	**359,770**	**(110)**	**–**	**359,660**
Change in net assets from operations	**39,500**	**345**	**11,115**	**50,960**
Investment loss in excess of amounts designated for current operations *(Note 4)*	**(114,613)**	**(39,629)**	**75**	**(154,167)**
Change in unrealized loss on interest rate swap agreements	**(5,396)**	**–**	**–**	**(5,396)**
Change in postretirement benefit obligation	**5,276**	**–**	**–**	**5,276**
Change in endowments operating on a loss	**(15,372)**	**15,372**	**–**	**–**
Change in net assets before cumulative effect of change in accounting principle	**(90,605)**	**(23,912)**	**11,190**	**(103,327)**
Cumulative effect of change in accounting principle	**(67,221)**	**67,221**	**–**	**–**
Net assets at beginning of year	**534,096**	**12,350**	**113,295**	**659,741**
Net assets at end of year	**$ 376,270**	**$ 55,659**	**$ 124,485**	**$ 556,414**

See accompanying notes.

University of Dayton

Statement of Activities

Year Ended June 30, 2008
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support				
Student tuition and fees	$ 217,063	$ –	$ –	$ 217,063
Less student aid	67,695	–	–	67,695
	149,368	–	–	149,368
Private gifts and grants	34,062	3,016	7,851	44,929
Government grants and contracts	75,343	–	–	75,343
Investment return designated for current operations *(Note 4)*	32,202	–	–	32,202
Auxiliary enterprises	67,272	–	–	67,272
Other	6,729	–	–	6,729
	364,976	3,016	7,851	375,843
Net assets released from restrictions	1,314	(1,314)	–	–
Total revenue, gains, and other support	366,290	1,702	7,851	375,843
Expenditures				
Instruction	111,419	–	–	111,419
Administrative and general	53,280	–	–	53,280
Libraries	9,740	–	–	9,740
Sponsored academic projects	12,479	–	–	12,479
Organized research	78,027	–	–	78,027
Auxiliary enterprises	69,334	–	–	69,334
Actuarial change on annuity liability	–	(564)	–	(564)
Total expenditures	334,279	(564)	–	333,715
Change in net assets from operations	32,011	2,266	7,851	42,128
Investment loss in excess of amounts designated for current operations *(Note 4)*	(83,879)	(3,501)	61	(87,319)
Loss on 2002 bond extinguishment	(773)	–	–	(773)
Change in unrealized loss on interest rate swap agreements	(1,468)	–	–	(1,468)
Change in postretirement benefit obligation	7,245	–	–	7,245
Change in net assets	(46,864)	(1,235)	7,912	(40,187)
Net assets at beginning of year	580,960	13,585	105,383	699,928
Net assets at end of year	$ 534,096	$ 12,350	$ 113,295	$ 659,741

See accompanying notes.

University of Dayton

Statements of Cash Flows
(In Thousands)

	Year Ended June 30 2009	2008
Operating activities		
Change in net assets	**$ (103,327)**	$ (40,187)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**17,904**	18,526
Gifts for restricted purposes	**(11,115)**	(7,333)
Net realized and unrealized losses on investments	**138,571**	69,193
Income restricted for long-term investment	**469**	330
Change in benefit obligations of OPEB plan	**(2,381)**	(3,980)
Loss on interest rate swap agreements	**(5,396)**	(1,468)
Cash (used in) provided by operating assets and liabilities:		
Increase in receivables	**(13,467)**	(12,685)
Decrease in inventories and prepaid expenses and other	**248**	2,720
Increase in accounts payable, accrued liabilities, and other liabilities	**11,374**	8,066
Increase in deferred income and student deposits	**1,350**	1,046
Net cash provided by operating activities	**34,230**	34,228
Investing activities		
Income restricted for long-term investment	**(469)**	(330)
Proceeds from the sale of investments	**1,171,457**	1,040,576
Purchases of investments	**(1,203,694)**	(1,017,576)
Additions of land, buildings, and equipment – net of nominal disposals	**(31,322)**	(31,527)
Net cash used in investing activities	**(64,028)**	(8,857)
Financing activities		
(Decrease) increase in advances from government for federal loans	**(303)**	180
Gifts for restricted purposes	**11,115**	7,333
Increase in notes payable	**2,320**	28,000
Draws on line of credit	**15,000**	–
Payments on line of credit	**(15,000)**	–
Proceeds on bond issuance	**74,545**	–
Discount on bond issuance	**(300)**	–
Payments on indebtedness	**(57,574)**	(60,880)
Net cash provided by (used in) financing activities	**29,803**	(25,367)
Net increase in cash	**5**	4
Cash at beginning of the year	**325**	321
Cash at end of the year	**$ 330**	$ 325

See accompanying notes.

University of Dayton

Notes to Financial Statements

June 30, 2009 and 2008

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 $95,000,000 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 that 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 temporarily restricted net assets.

2. Accounting Policies (continued)

Contributions of land, buildings, and equipment, without donor stipulations concerning the use of such long-lived assets, are reported as revenue 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 revenue 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. Contributions received with donor-imposed restrictions, where the restrictions are met in the same fiscal year, are reported as unrestricted net assets. In 2009, the University released $571,000 in restricted assets ($224,000 for instruction, $22,000 for administrative and general and $325,000 for auxiliary enterprises). In 2008, the University released $1,314,000 in restricted assets ($464,000 for instruction, $151,000 for administrative and general and $699,000 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 are in excess or deficient 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 Marianists, a Roman Catholic Institute of Consecrated Life. The Marianists are a separate entity from the University. Members of the Marianists serve on the faculty and staff of the University under employment agreements. The members of the Marianists are not participants in the University's retirement program; however, the University makes a payment to the Marianists for their related salaries along with an amount for benefits. The contribution was $1,413,000 in 2009 and $1,360,000 in 2008. It is the intent of the University and the Marianists that compensation paid to the Marianists for the services provided by the members of the Marianists are paid at a rate comparable to those of other employees in similar positions. The Marianists contribute funds to the University, which are recorded as gifts. These gifts were $380,000 and $371,000 in 2009 and 2008, 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. Revenue is recognized on grants and contracts as expenses are incurred and amounts received in advance are reflected as deferred income.

Cash and Cash Equivalents

Cash represents amounts held by financial institutions. Money market funds and certificates of deposit are included in cash equivalent investments that represent short-term investments.

2. Accounting Policies (continued)

Securities Lending Program

The University participates in a pooled securities lending program, whereby securities owned by the University are loaned to the other institutions as part of a pool that is managed by a custodian bank. The University requires that collateral from the borrower in an amount equal to 102% in the case of securities of United States issuers, and 105% in the case of securities of non-United States issuers of the market value of the loaned securities be placed with a third party trustee. The University maintains effective control of the loaned marketable securities through its custodian during the term of the arrangement in that they may be recalled at any time. Under the terms of the arrangement, the borrower must return the same, or substantially the same, marketable securities that were borrowed.

The custodian invests the cash collateral received in government securities, overnight commercial paper and other short-term overnight investments on behalf of the University and other members of the securities lending pool. The market value of cash collateral held for loaned marketable securities is reported as collateral held for securities lending agreement on the accompanying statements of financial position. A liability is recorded for repayment of such collateral upon settlement of the securities lending arrangements.

At June 30, 2009, securities on loan totaled $27,765,000, for which a total amount of $28,370,000 of collateral had been posted by the borrower; and the market value of the cash collateral held was $27,172,000. As a result of the decline in the fair value of the invested cash collateral at June 30, 2009, the University recorded a loss of approximately $1,198,000 which is included in investment loss in excess of amounts designated for current operations on the statement of activities. At June 30, 2008, securities on loan totaled $56,933,000 and the value of the cash collateral held was $57,357,000. These amounts are treated as noncash items for purposes of the cash flow. The market value of noncash collateral at June 30, 2009 and 2008 was $75,000 and $1,774,000, respectively, and is not recorded in the balance sheets in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

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.

2. Accounting Policies (continued)

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

The fair value for marketable debt and equity securities is based on quoted market prices or the last reported sale price on the last business day of the fiscal year.

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 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, land improvements and equipment is recorded using the straight-line method over their respective estimated useful lives of 45 years, 20 years, and 3 to 15 years, respectively.

2. Accounting Policies (continued)

Interest Rate Swap

The University makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under interest rate swap agreements, the University and its counterparty agree to exchange the difference between the fixed rate debt and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. The difference between the fixed and variable interest amounts (fair value) under the swap agreements is recorded as unrealized gain or loss on interest rate swap.

In August 2006, the University entered into an interest rate swap agreement with a notional amount of $25,995,000. This Agreement effectively fixed the interest rate on the portion of the State of Ohio Higher Education Facility Commission $72,105,000, 2006 bonds whose interest rate was tied to the Consumer Price Index at rates ranging from 4.09% to 4.44% for the bonds maturing between December 1, 2015 through December 1, 2023. The fair value of this Agreement as of June 30, 2009 is recorded as a liability of $2,007,000, and is included in other liabilities in the accompanying Statements of Financial Position.

Also in August 2006, the University entered into an interest rate swap agreement with a notional amount of $22,350,000. This Agreement effectively fixed the interest rate on the portion of the State of Ohio Higher Education Facility Commission $54,100,000 converted 2003 bonds whose interest rate was tied to the Consumer Price Index at rates ranging from 4.09 to 4.44% for the bonds maturing between December 1, 2015 through December 1, 2023. The fair value of this Agreement as of June 30, 2009 is recorded as a liability of $2,339,000, and is included in other liabilities in the accompanying Statements of Financial Position.

In April 2007, the University entered into an interest rate swap agreement with a notional amount of $28,000,000. This Agreement effectively fixed the interest rate on the State of Ohio Higher Education Facility Commission $28,000,000, 2002 variable rate bonds at 3.99% through December 1, 2032. The fair value of this Agreement as of June 30, 2009 and 2008 is recorded as a liability of $1,759,000 and $710,000, respectively, and are included in other liabilities in the accompanying Statements of Financial Position.

2. Accounting Policies (continued)

In fiscal 2008, the tax-exempt auction rate bond market was not able to adequately re-set the market prices of auction rate bonds. In order to avoid a significantly higher variable interest rates resulting from these failed auctions, the University called the tax-exempt variable rate bonds and temporarily refinanced this transaction with taxable bank debt. The University subsequently refunded this debt as part of its 2009 bond issue. As a result of this refunding, the interest rate swap is no longer tied to a variable rate bond issue. It is the University's intention to close out this swap when the cost to do so is at or near zero.

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 Statement of Financial Position.

Income Taxes

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

The University was required to adopt Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN No. 48) in 2008. FIN No. 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The University completed an analysis of its tax positions at June 30, 2009 and 2008, and determined that no amounts were required to be recognized under FIN No. 48 in the financial statements at June 30, 2009 or 2008.

2. Accounting Policies (continued)

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.

Reclassifications

Certain reclassifications were made to the 2008 financial statement presentation to conform to the 2009 presentation.

New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instrument and Hedging* Activities (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and is thereby intended to improve transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The University is currently evaluating SFAS No. 161 and will make additional disclosures as required upon adoption.

3. Pledges Receivable

As of June 30, 2009, the University had received unconditional promises from donors totaling a discounted amount of $24,612,000 discounted at 4.0% ($19,837,000 discounted at 7.0% at June 30, 2008), on which management has set up an allowance for uncollectible promises of $1,231,000 ($992,000 at June 30, 2008). In addition, the University wrote off $5.6 million in pledges receivable directly to the Statement of Activities during fiscal 2009. Most unconditional promises are restricted by donors for scholarships and general operating support purposes and are due as follows (in thousands):

	June 30, 2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Less than one year	**$ 4,901**	**$ 1,010**	**$ 2,764**	**$ 8,675**
One to five years	**7,304**	**1,455**	**2,876**	**11,635**
More than five years	**3,157**	**192**	**953**	**4,302**
	$ 15,362	**$ 2,657**	**$ 6,593**	**$ 24,612**

	June 30, 2008			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Less than one year	$ 3,253	$ 2,094	$ 2,725	$ 8,072
One to five years	3,293	2,642	2,474	8,409
More than five years	412	2,141	803	3,356
	$ 6,958	$ 6,877	$ 6,002	$ 19,837

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

4. Investments

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

	June 30, 2009		June 30, 2008	
	Carrying Value	**Cost**	**Carrying Value**	**Cost**
Cash and cash equivalents	**$ 65,399**	**$ 66,047**	$ 34,446	$ 34,327
Equity securities	**113,997**	**126,035**	177,386	187,345
US Government/agency obligations	**126,001**	**124,695**	104,174	103,473
Mortgage-backed securities	**3,419**	**3,667**	23,708	23,824
Asset-backed securities	**2,305**	**2,441**	3,041	3,231
Bonds – corporate/sovereign credits	**12,076**	**11,998**	11,880	12,332
Bonds – municipal	**879**	**926**	807	807
Mutual funds	**124,583**	**172,937**	189,553	164,377
Real estate*	**36,510**	**48,165**	44,005	42,570
Private equity*	**24,293**	**30,320**	25,612	24,850
Guaranteed investment contracts	**299**	**299**	285	285
Total	**$ 509,761**	**$ 587,530**	$ 614,897	$ 597,421

*Considered alternative investments

Of the June 30, 2009, total carrying value of $509,761,000 approximately $403,487,000 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.

Investment securities are exposed to various risks such as 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 amounts reported in the statements of financial position.

At June 30, 2009, the University has committed capital (yet to be called) of approximately $29,719,000 and $31,050,000 to real estate and private equity.

4. Investments (continued)

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

	Year Ended June 30, 2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Dividends and interest earnings	**$ 12,777**	**$ 393**	**$ 75**	**$ 13,245**
Net realized and unrealized losses	**(98,396)**	**(38,676)**	**–**	**(137,072)**
Gross return on investments	**(85,619)**	**(38,283)**	**75**	**(123,827)**
Investment return designated for annuity obligations	**–**	**(1,346)**	**–**	**(1,346)**
Total return on investments	**(85,619)**	**(39,629)**	**75**	**(125,173)**
Investment return designated for current operations	**(28,994)**	**–**	**–**	**(28,994)**
Investment return in deficiency of amounts designated for current operations	**$ (114,613)**	**$ (39,629)**	**$ 75**	**$ (154,167)**

	Year Ended June 30, 2008			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Dividends and interest earnings	$ 15,073	$ 424	$ 61	$ 15,558
Realized and unrealized gains	(66,750)	(2,443)	–	(69,193)
Gross return on investments	(51,677)	(2,019)	61	(53,635)
Investment return designated for annuity obligations	–	(1,482)	–	(1,482)
Total return on investments	(51,677)	(3,501)	61	(55,117)
Investment return designated for current operations	(32,202)	–	–	(32,202)
Investment return in excess of amounts designated for current operations	$ (83,879)	$ (3,501)	$ 61	$ (87,319)

5. Land, Buildings, and Equipment

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

	2009	2008
Buildings	**$ 417,225**	$ 404,505
Equipment	**108,615**	102,487
Land and land improvements	**48,834**	47,694
Library books	**52,687**	50,131
Renovations-in-progress	**23,691**	14,528
	651,052	619,345
Accumulated depreciation	**(240,245)**	(221,499)
	$ 410,807	$ 397,846

Depreciation expense was $18,361,000 and $18,992,000 for the year ended June 30, 2009 and 2008, respectively.

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 $8,058,000 in 2009 and $7,718,000 in 2008.

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. Contributions by plan participants were $978,000 in 2009 and $896,000 in 2008.

6. Retirement Plans (continued)

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

	2009	2008
Service cost of benefits earned	**$ 1,078**	$ 1,275
Interest cost on liability	**3,488**	3,488
Amortization of prior service cost	**(118)**	(118)
Amortization of loss	**–**	197
Net periodic postretirement benefit cost	**$ 4,448**	$ 4,842

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).

	2009	**2008**
Change in projected benefit obligations		
Benefit obligation at beginning of year	**$ 53,060**	$ 57,040
Service cost	**1,078**	1,275
Interest cost	**3,488**	3,488
Actuarial gain	**(5,394)**	(7,167)
Benefits paid	**(1,553)**	(1,576)
Benefit obligation at end of year	**50,679**	53,060
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	**–**	–
Employer contributions	**1,553**	1,576
Benefits paid	**(1,553)**	(1,576)
Fair value of plan assets at end of year	**–**	–
Net balance sheet liability	**$ 50,679**	$ 53,060

6. Retirement Plans (continued)

The following components were recognized in unrestricted net assets for the year ended June 30 (in thousands):

	2009	2008
Actuarial gain	**$ 5,394**	$ 7,167
Net gain	**–**	196
Prior service cost	**(118)**	(118)
	$ 5,276	$ 7,245

Included in unrestricted net assets at June 30, 2009 are the following amounts that have not yet been recognized in the net periodic benefit cost: amortization of prior service cost of $708,212 and amortization of net gain of $4,758,178. The net gain and prior service cost expected to be recognized during the year ended June 30, 2010 are $0 and $118,035, respectively.

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

	2009	2008
Weighted-average discount rate used to determine the projected benefit obligation	**6.75%**	6.75%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	**6.75%**	6.25%

The health care cost trend rate assumption has a significant effect on the amounts reported in the financial statements. For the actual trend assumptions a new trend model was utilized in the year ending June 30, 2009. The model is based on long-term projections of GDP per capita and National Health Expenditures per capita. These are based on the Centers for Medicare and Medicaid Services assumptions through 2017, and the actuaries' long term assumptions thereafter. The model does not specifically have an administrative cost trend. Rather, that is incorporated with the medical.

6. Retirement Plans (continued)

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:

	2009	2008
Initial year trend:		
Combined trend pre-Medicare	**8.20%**	8.90%
Combined trend post-Medicare	**8.00%**	8.90%
Combined ultimate trend for pre-1994 and grandfathered retirees:		
Pre-Medicare	**4.50%**	5.10%
Post-Medicare	**4.50%**	5.10%
Combined ultimate trend for non-grandfathered participants and post-1994 retirees:		
Pre-Medicare	**4.50%**	5.00%
Post-Medicare	**No Trend**	No Trend
Year that rates reach the ultimate trend rate	**2028**	2020

A one-percentage point change in the assumed health care 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	$ 3,963	$ (3,493)
Effect on net periodic benefit cost	467	(405)

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):

2010	$ 2,515
2011	2,871
2012	3,226
2013	3,545
2014	3,814
2015–2018	21,835

The University plans to make contributions to the plan of $2,515,000 in 2010.

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 $281 million) 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 ownership of the respective facilities will be transferred to the University.

7. Indebtedness (continued)

Indebtedness at June 30 consists of the following (in thousands):

	2009	2008
	(In Thousands)	
$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 2022; 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; $8,088,000 of the 2009 bonds were set aside in a trust to repay $8,050,000 of the 1997 bonds at their call date (April 23, 2009), as well as the principal and interest to that date.	**$ –**	$ 10,525
$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 2030; 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; $10,814,000 of the 2009 bonds were set aside in a trust to repay $10,660,000 of the bonds at their call date (April 23, 2009), as well as the principal and interest to that date	**930**	12,480
$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 2012; 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; $30,018,000 of the 2006 bonds have been set aside to repay $28,460,000 of the 2000 bonds at their call date (December 1, 2009), as well as the principal and interest to that date.	**30,090**	30,465

7. Indebtedness (continued)

	2009	2008
	(In Thousands)	
$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 were escrowed to refund portions of the 1991 and 1992 bonds.	**23,105**	25,390
Premium on 2001 Revenue bonds	**428**	538
$55,850,000 Revenue bonds of 2003, converted in conjunction with the 2006 bond issue, to fixed rates of 4.0% increasing to 5.0% for those bonds due in 2033; each June 1 and December 1, the University is required to pay amounts totaling approximately $3,223,000 annually for principal and interest payments through 2033.	**51,125**	52,150
Premium on 2003 Revenue bonds	**561**	641
$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 2034; 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.	**41,600**	43,765
Premium on 2004 Revenue bonds	**909**	1,092

7. Indebtedness (continued)

	2009	2008
	(In Thousands)	
$72,105,000 Revenue bonds of 2006, rates on bonds due in 2006 of 4.0% increasing to 5.0% for bonds due in December 2036; each June 1 and December 1, the University is required to pay amounts totaling approximately $4,520,000 annually for principal and interest payments due. $42,105,000 of the proceeds was escrowed to refund portions of the 1997 and the 2000 bonds.	**71,340**	71,485
Premium on 2006 Revenue bonds	**658**	699
$74,545,000 Revenue bonds of 2009, rates on bonds due in 2010 of 4.00% increasing to 5.00% for bonds due in December 2037; each June 1 and December 1, the University is required to pay amounts totaling approximately $5,075,000 annually for principal and interest payments due. $18,330,000 of the proceeds were used to refund portions of the 1997 and 1998 bonds.	**74,545**	–
Discount on 2009 Revenue bonds	**(341)**	–
$15,000,000 Lease Purchase Agreement of 2001 with Key Corporate Capital and the Ohio Higher Educational Facility Commission; lease draws were 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.	**99**	848

7. Indebtedness (continued)

	2009	**2008**
	(In Thousands)	
$20,000,000 note payable to NCR Corporation dated June 2005, for purchase of land and a building adjacent to the western edge of the main campus. The final payment of $5,000,000 is due January 1, 2009 (3.00% interest).	–	5,000
$28,000,000 note payable to Wells Fargo Bank dated April 2008 and originally due April 2009 (with option to renew for one additional year taken by the University) at an interest rate of 3.45%.	**5,000**	28,000
Various other notes payable	**2,983**	1,419
	$ 303,032	$ 284,497

The purchase agreement for the land and building acquired from NCR Corporation in 2005, financed through a note payable, included a net profit sharing provision. Under the terms of this agreement, the University was 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. During 2009, the seller agreed to accept as full payment $2,320,000 paid by the University in installments from January 2009 to January 2010. As of June 30, 2009 the balance outstanding is $1,606,500.

7. Indebtedness (continued)

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

	Bonds Outstanding June 30, 2009
2010	$ 45,088
2011	9,353
2012	9,591
2013	9,987
2014	10,360
2015–2018	56,084
2019–2023	44,522
2024–2028	49,548
2029–2033	41,188
2034–2037	27,311
Total	$ 303,032

As of June 30, 2009, the University had met all of the required repair and replacement reserve and debt service requirements.

Cash paid for interest expense was $14,490,000 for 2009 ($15,173,000 in 2008). Interest expense was $13,929,000 for 2009 ($13,786,000 in 2008).

As of June 30, 2009, the University has two major renovations in progress: the Stuart Hall and Virginia Kettering Hall renovations. Total commitments related to these projects amounted to approximately $6,000,000. These construction projects are financed through the 2009 bond offering mentioned above.

Additionally, during 2006, the University invested in two investment partnerships. As part of these investments, the University has guaranteed all or a portion of the loans between the third parties and the investment partnerships. The terms of the guarantees are through June 30, 2010 and June 30, 2011, with a maximum potential amount of approximately $8,000,000 and $3,000,000, respectively.

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

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

	June 30 2009	June 30 2008
Instruction	**$ 16,510**	$ 1,319
Administrative and general	**2,842**	3,781
Organized research	**33**	–
Libraries	**2,831**	22
Student aid	**31,205**	5,552
Auxiliary enterprises	**2,238**	1,676
	$ 55,659	$ 12,350

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

	June 30 2009	June 30 2008
Instruction	**$ 48,647**	$ 42,083
Administrative and general	**9,734**	9,728
Organized research	**2,519**	15
Libraries	**4,195**	4,140
Student aid	**59,256**	57,196
Auxiliary enterprises	**134**	133
	$ 124,485	$ 113,295

9. Fair Value of Financial Instruments

The University adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157) effective July 1, 2008. In accordance with FAS 157, fair value is defined as the price that the University would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. FAS 157 established a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the University's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below:

- Level 1 – unadjusted quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the University's own assumptions in determining fair value of financial instruments)

For Level 1 inputs, the University uses unadjusted quoted prices in active markets as provided to it by its investment managers and asset custodians. Level 2 valuation techniques include inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly, examples of which include market corroborated pricing and other inputs such as interest rates, yield curves, and indices. For Level 3 valuation techniques, the University uses unobservable inputs and assumptions that market participants would be expected to use in pricing the asset or liability; these may include pricing information from private equity managers or others that the University relies upon in determining asset valuation. In determining the fair value of Level 2 and Level 3 assets and liabilities, the University has relied upon information provided by its investment managers and certain independent firms with sufficient knowledge about these assets and liabilities to provide it with information to make a fair value determination.

9. Fair Value of Financial Instruments (continued)

The inputs or methodologies used for valuing the assets and liabilities are not necessarily an indication of risk associated with those assets and liabilities. The following is a summary of the inputs used as of June 30, 2009 in valuing the University's assets and liabilities carried at value (in thousands):

	Fair Value Measurements at June 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments	$ 313,224	$ 141,544	$ 2,525	$ 457,293
Collateral held for securities lending agreement	–	27,172	–	27,172
Total assets at fair value	$ 313,224	$ 168,716	$ 2,525	$ 484,465
Liabilities				
Other liabilities – interest rate swap liability	$ –	$ –	$ 6,105	$ 6,105
Total liabilities at fair value	$ –	$ –	$ 6,105	$ 6,105

Alternative investments, which include various real estate, Real Estate Investment Trusts (REITs), private equity funds and other limited partnerships, are accounted for under the equity method and are deemed to be at fair value as of June 30, 2009.

Following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value (in thousands):

Balance as of June 30, 2008	$ 945
Transfers and reclassifications	1,018
Net purchases (sales)	756
Realized gain (loss)	(22)
Change in unrealized appreciation (depreciation)	(172)
Balance as of June 30, 2009	$ 2,525

9. Fair Value of Financial Instruments (continued)

The following is a reconciliation of liabilities in which significant unobservable inputs (Level 3) were used in determining fair value (in thousands):

Balance as of June 30, 2008	$	710
Transfers and reclassifications		–
Unrealized loss due to change in market value		5,395
Balance as of June 30, 2009	$	6,105

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.

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. 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.

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 $309,000,000.

10. Endowment Funds

In August 2008, the FASB issued FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the Board of Trustees. The University adopted FSP FAS 117-1 on July 1, 2008.

10. Endowment Funds (continued)

The University's endowment consists of permanently and temporarily restricted individual donor endowment funds and unrestricted board-designated or quasi endowment funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted in accordance with UPMIFA and donor stipulations. Absent donor stipulations, the Board may appropriate for expenditure, for the uses and purposes of the endowment fund, the net appreciation, realized and unrealized, in the fair value of the assets of the endowment established by UPMIFA.

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 or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There was a deficiency of $16,412,000 recorded as of June 30, 2009 and a deficiency of $1,040,000 recorded as of June 30, 2008.

The long-term objective of the University's investment portfolio is to generate a return, which is sufficient to provide funding for programs supported by its endowment. To accomplish this objective, the University seeks to earn the greatest total return possible consistent with its general risk tolerance and a diversified asset allocation strategy. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that includes equity-based investments to achieve its long-term objectives within prudent risk constraints.

10. Endowment Funds (continued)

The University has a policy of appropriating an inflationary increase for distribution over the previous year's distribution as long as the amount is above 4% and not in excess of 5.5% of the Endowment Funds previous June 30 fair value. In establishing this policy, the University considered the long-term expected return on its endowment.

The University has the following endowment-related activities:

	Changes in Endowment Net Assets (in thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2008	$ 256,497	$ –	$ 113,076	$ 369,573
Cumulative effect of change in accounting principle	(67,221)	67,221	–	–
Investment return (loss):				
Investment income	3,926	3,124	–	7,050
Net depreciation (realized and unrealized)	(76,281)	(28,369)	–	(104,650)
Contributions	215	–	11,190	11,405
Other (additions and deletions to endowment)	44,648	15,372	167	60,187
Appropriation of endowment assets for expenditure	(6,015)	(8,582)	–	(14,597)
Endowment net assets at June 30, 2009	$ 155,769	$ 48,766	$ 124,433	$ 328,968

11. Subsequent Events

Effective June 30, 2009, the University adopted the provisions of SFAS No. 165, *Subsequent Events* (SFAS No. 165) The objective of SFAS No. 165 is to establish general standards of accounting for and disclosure of events that occur after the consolidated balance sheet date but before the consolidated financial statements are issued or are available to be issued. The University has evaluated and disclosed any subsequent events through October 7, 2009, which is the date the consolidated financial statements were issued and made available.

Ernst & Young LLP
1660 Kettering Tower
40 North Main Street
Dayton, Ohio 45423

Tel: +1 937 225 0000
Fax: +1 937 225 0300
www.ey.com

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, 2009 and 2008, 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, 2009 and 2008, 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 10 to the financial statements, in 2009 the University adopted FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*

Ernst + Young LLP

October 7, 2009
Dayton, Ohio

Management Discussion and Analysis

For the year ended June 30, 2009 the University's total assets decreased by $109.1 million. Significant changes were as follows: accounts receivable increased by $9.5 million, this was mostly a result of an increase in amounts due for research contracts. Pledges increased as a result of a large anonymous pledge recorded this year, less some collections and normal gifts recorded. Our investment portfolio declined by over $105 million. This was primarily the result of general market declines. Almost all the equities, fixed income, real estate and private equity investments declined. The University continued to invest in campus improvements with major additions in land, building, and equipment related to renovations at Stuart and Virginia Kettering residence halls and Kettering Labs renovations.

The University's indebtedness increased by $18.5 million. In March 2009, the University issued $75 million of new bond debt: $33.0 million for new projects, $19.0 million to refinance the 1997 and 1998 revenue bonds, and $23 million to reduce a $28 million note payable. The University also repaid about $15.5 million that was due under various bond issues and notes payable.

During fiscal year 2009, the University adopted FASB Staff Position No. 117-1 (FSP 117-1) which resulted in reclassifications of net asset balances for the year ending June 30, 2009. As a result of adopting FSP 117-1, $67.2 million was transferred out of unrestricted net assets into temporarily restricted net assets during 2009.

Condensed Statement of Financial Position
June 30
(in thousands)

	2009	2008	Increase (Decrease)	Percent Change
Other Assets	$ 51,845	$ 42,523	$ 9,322	22%
Collateral Held for Securities Lending Agreement	27,172	57,357	(30,185)	-53%
Pledges, Notes Receivable	40,256	36,354	3,902	11%
Investments	509,761	614,897	(105,136)	-17%
Land, Buildings, and Equipment	410,807	397,846	12,961	3%
Total Assets	$ 1,039,841	$ 1,148,977	$(109,136)	-9%
Other Liabilities	$ 89,249	$ 81,922	$ 7,327	9%
Accrued Postretirement Benefits	50,679	53,060	(2,381)	-4%
Liability under Securities Lending Agreement	28,370	57,357	(28,987)	-51%
Advances from Government	12,097	12,400	(303)	-2%
Indebtedness	303,032	284,497	18,535	7%
Total Liabilities	$ 483,427	$ 489,236	$ (5,809)	-1%
Unrestricted	$ 376,270	$ 534,096	$(157,826)	-30%
Temporarily Restricted	55,659	12,350	43,309	351%
Permanently Restricted	124,485	113,295	11,190	10%
Total Net Assets	$ 556,414	$ 659,741	$(103,327)	-16%

Total operating revenues increased $35 million to $410 million, including a $15 million increase in tuition revenue as a result of a 5.3% increase in tuition rates and an increase of 200 full time equivalent undergraduate students. Government grants increased $13 million as a result of additional contracts obtained for organized research.

The University's spending policy on the long term investment pool allowed for 5.0% spending rate for fiscal year 2009. Total return on investments for the year was a negative $125 million or -22.8%. The University's spending policy allocated $29 million to be used for operations with $154 million loss considered a non-operating item. For the year ended June 30, 2009, the University recorded a loss of $5.4 million on the interest rate swaps also as a non-operating item.

Increases to operating expenses included $6 million in overall instruction expenses, which included each of the professional schools and the college; and $16 million in organized research and sponsored projects which is the result of additional contracts obtained.

The University participates in lending of securities. This results in an asset for collateral held and a liability of a roughly similar amount. For 2009 the University reduced its activity in this area reducing both the asset and liability by about $30 million.

Condensed Statement of Activities for the Years Ended June 30 (in thousands)

	2009	2008	Increase (Decrease)	Percent Change
Operating Revenues, Gains, and Other Support				
Student Tuition and Fees	$ 164,595	$ 149,368	$ 15,227	10%
Auxiliary Enterprises	73,863	67,272	6,591	10%
Private Gifts, Grants and Other	55,178	51,658	3,520	7%
Government Grants and Contracts	87,990	75,343	12,647	17%
Investment Return Used for Operations	28,994	32,202	(3,208)	-10%
Total Revenues, Gains and Other Support	410,620	375,843	34,777	9%
Less Expenditures				
Instruction and Library	127,235	121,159	6,076	5%
Auxiliary Enterprises	74,436	69,334	5,102	7%
Organized Research and Sponsored Projects	106,284	90,506	15,778	17%
Administrative and General and Other	51,705	52,716	(1,011)	-2%
Total Expenditures	359,660	333,715	25,945	8%
Change in Net Assets from Operations	50,960	42,128	8,832	21%
Investment Return in Excess of Amounts Used for Operations	(154,167)	(87,319)		
Unrealized (Loss) on Interest Rate Swap	(5,396)	(1,468)		
Change in Post-retirement Benefit Obligation	5,276	7,245		
Loss on 2002 Bond Extinguishment	-	(773)		
Change in Net Assets	(103,327)	(40,187)		
Net Assets, Beginning of Year	659,741	699,928		
Net Assets, End of Year	$ 556,414	$ 659,741		

Members of the Board
2009–2010

UNIVERSITY *of*
DAYTON