UNIVERSITY *of*

DAYTON

Financial Report

June 30, 2010

Comparative Summary Information

	2005–06	2006–07	2007–08	2008–09	2009–10
Endowment—Cost	$311,342,000	$325,366,000	$349,238,000	$385,513,000	$378,187,000
Endowment—Market	353,424,000	410,355,000	369,573,000	328,968,000	355,550,000
Physical Plant—Carrying Value (Excluding Depreciation)	561,711,000	596,763,000	619,345,000	665,178,000	702,055,000
Physical Plant—Insurable Value	826,535,000	833,067,000	845,059,000	881,682,000	955,622,000
Long Term Debt	260,423,000	317,843,000	284,497,000	303,032,000	301,689,000
Enrollment—Full-time—Undergraduate	6,913	6,925	6,845	7,136	6,900
Enrollment—Law School	468	449	425	484	503
Enrollment—Graduate School	2,673	2,580	2,536	2,705	2,999
Total Enrollment—Full and Part-time	10,567	10,502	10,395	10,920	10,909
Degrees Awarded—Undergraduate	1,477	1,577	1,584	1,738	1,613
Degrees Awarded—Graduate	993	998	889	987	978

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

William M. Fischer
Interim Vice President for Student Development and Dean of Students

Rev. James F. Fitz, S.M.
Rector

Sundar Kumarasamy
Vice President for Enrollment Management

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

Deborah A. Read
Vice President for University Advancement

Timothy J. Wabler
Vice President and Director for Athletics

Thomas J. Weckesser
Assistant Vice President for Finance

Lisa S. Mastrobuono
Chief Accounting Officer

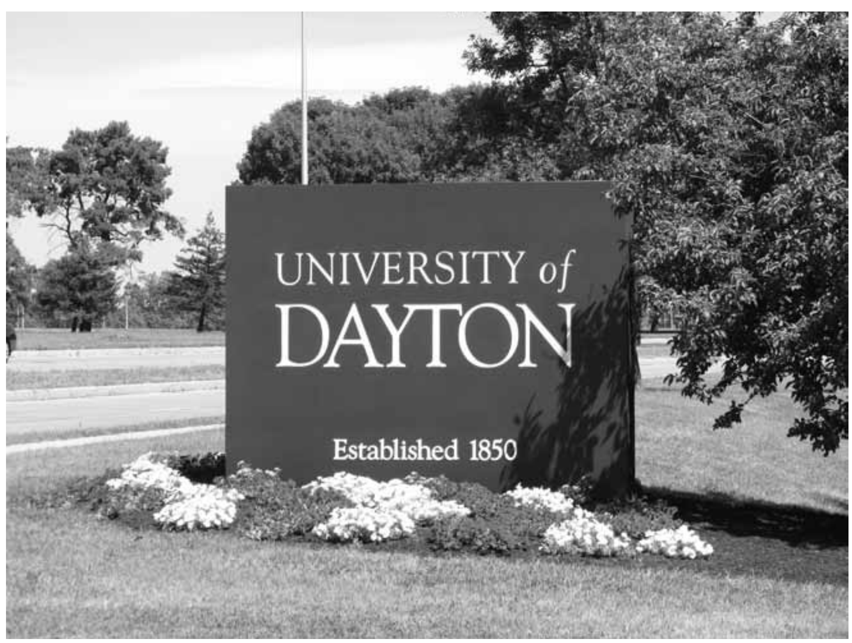
October 28, 2010

Those who have gone before us invested great amounts of time and effort in the University of Dayton. As stewards, we have obligations to shepherd and protect the results of those investments. We also have an obligation to the future – to use our talents wisely to serve the needs of those to come after us.

At times, circumstances make this a challenging task. As an institution, we are not immune from the results of worldwide economic troubles. Financial uncertainty has been a reality for our alumni, our students and our future students. Shifting demographic trends complicate student recruitment. But our challenges can be put in perspective by looking at those faced by others — for example, Blessed William Joseph Chaminade. The very fabric — social, political and religious — of French society of his time was torn apart. Yet he was true to his obligations to those who had gone before and those who would come after.

These pages show the University of Dayton's successful stewardship of what has been entrusted to us. Reflected in the report is the phenomenon that others — our corporate and governmental partners as well as students and their families — in growing numbers see the University of Dayton as the place to invest their time, their dollars, their effort and their loyalty.

That trust and that success make overcoming the challenges of the times a very rewarding task. I am proud to be president of an institution whose people are so energetically, optimistically and successfully facing the future.



Sincerely,

Daniel J. Curran

Daniel J. Curran, Ph.D.
President

October 28, 2010

The audited financial statements included in this report reflect a positive year for the University of Dayton in terms of its operations and its investment activities. It has been a difficult period in the economy for the last several years and, despite the uncertainties, the University has been able to operate effectively and with a positive net change in assets from operations in 2008, 2009, and 2010. And, this year, we had an increase in net assets due to investment returns in excess of our spending policy, adding $54.5 million to our net assets.

We have capitalized on opportunities when presented to us and, at the same time, created our own opportunities in many areas. We were able to acquire 115 acres and a 450,000 square foot facility in December 2009. This is a great addition to our urban campus and will be very significant to UD in the long term.

Our faculty, staff, and students continue to serve the greater Dayton, state, and national communities in many innovative ways. For example, we sent 200 tons of food waste to compost rather than landfills this past year. We were once again named a top ten program in Entrepreneurship by Entrepreneur magazine and we have been named by the U.S. Peace Corps as a top volunteer-producing school.

All is not measured in dollars and cents on the balance sheet. We strive to achieve a proper balance of investing in today's opportunities and maintaining strong fiscal standards and developing resources for the future. Most importantly, we invest in our students—the servant leaders of tomorrow. We are thankful and ask God's continued blessings on the University and all those who support it.

Very truly yours,

Thomas E. Burkhardt
Vice President for Finance and Administrative Services

1700 South Patterson Boulevard (former headquarters of NCR)

University of Dayton

Statements of Financial Position

(In Thousands)

	June 30 2010	June 30 2009
Assets		
Cash and cash equivalents	**$ 33,345**	$ 26,055
Collateral held for securities lending agreement (*Note 2*)	**19,595**	27,172
Accounts receivable – less allowance of $2,199 in 2010 and $2,028 in 2009 (*Note 2*)	**39,116**	46,355
Pledges receivable – less allowance of $1,214 in 2010 and $1,231 in 2009 *(Note 3)*	**23,054**	23,381
Inventories	**2,765**	2,712
Prepaid expenses and other	**2,610**	2,448
Notes receivable – less allowance of $1,755 in 2010 and $1,415 in 2009	**20,611**	16,875
Investments (*Note 4*)	**503,306**	469,910
Land, buildings, and equipment *(Note 5)*	**446,963**	424,933
Total assets	**$ 1,091,365**	$ 1,039,841
Liabilities		
Accounts payable	**$ 12,832**	$ 19,113
Accrued payroll	**10,818**	10,004
Accrued compensated absences	**10,774**	10,198
Liability under securities lending agreement (*Note 2*)	**20,303**	28,370
Other liabilities	**26,209**	23,404
Deferred income and student deposits	**23,460**	26,530
Indebtedness *(Note 7)*	**301,689**	303,032
Accrued postretirement benefits *(Note 6)*	**62,799**	50,679
Advances from government for federal loans	**11,746**	12,097
Total liabilities	**480,630**	483,427
Net assets *(Note 8)*		
Unrestricted	**423,930**	376,270
Temporarily restricted	**58,656**	55,659
Permanently restricted	**128,149**	124,485
Total net assets	**610,735**	556,414
Total liabilities and net assets	**$ 1,091,365**	$ 1,039,841

See accompanying notes.

University of Dayton

Statement of Activities

Year Ended June 30, 2010
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support				
Student tuition and fees	$ 245,227	$ –	$ –	$ 245,227
Less student aid	(77,460)	–	–	(77,460)
	167,767	–	–	167,767
Private gifts, grants and other	39,228	1,097	3,580	43,905
Government grants and contracts	88,185	–	–	88,185
Investment return designated for current operations *(Note 4)*	24,104	–	–	24,104
Auxiliary enterprises	72,887	–	–	72,887
	392,171	1,097	3,580	396,848
Net assets released from restrictions	665	(665)	–	–
Total revenue, gains, and other support	392,836	432	3,580	396,848
Expenditures				
Instruction	121,691	–	–	121,691
Administrative and general	49,655	–	–	49,655
Libraries	10,260	–	–	10,260
Sponsored academic projects	13,187	–	–	13,187
Organized research	91,154	–	–	91,154
Auxiliary enterprises	75,737	–	–	75,737
Actuarial change on annuity liability	–	21	–	21
Total expenditures	361,684	21	–	361,705
Change in net assets from operations	31,152	411	3,580	35,143
Investment gain in excess of amounts designated for current operations *(Note 4)*	23,775	6,577	84	30,436
Change in unrealized loss on interest rate swap agreements	(1,382)	–	–	(1,382)
Change in postretirement benefit obligation	(9,876)	–	–	(9,876)
Change in endowments operating on a loss	3,991	(3,991)	–	–
Change in net assets	47,660	2,997	3,664	54,321
Net assets at beginning of year	376,270	55,659	124,485	556,414
Net assets at end of year	$ 423,930	$ 58,656	$ 128,149	$ 610,735

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, grants and other	43,257	806	11,115	55,178
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
	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

Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2010	**2009**
Operating activities		
Change in net assets	**$ 54,321**	$ (103,327)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**18,793**	17,904
Gifts for restricted purposes	**(3,580)**	(11,115)
Net realized and unrealized (gains) losses on investments	**(47,598)**	138,571
Income restricted for long-term investment	**258**	469
Change in net benefit obligations	**12,120**	(2,381)
Change in unrealized loss on interest rate swap agreements	**1,382**	5,396
Cash and cash equivalents (used in) provided by operating assets and liabilities:		
Decrease (increase) in receivables	**3,830**	(13,467)
(Increase) decrease in inventories and prepaid expenses and other	**(215)**	248
(Decrease) increase in accounts payable, accrued liabilities, and other liabilities	**(3,468)**	582
(Decrease) increase in deferred income and student deposits	**(3,070)**	1,350
Net cash and cash equivalents provided by operating activities	**32,773**	34,230
Investing activities		
Income restricted for long-term investment	**(258)**	(469)
Proceeds from the sale of investments	**1,032,068**	510,652
Purchases of investments	**(1,018,356)**	(532,247)
Additions of land, buildings, and equipment – net of nominal disposals	**(41,302)**	(34,464)
Net cash and cash equivalents used in investing activities	**(27,848)**	(56,528)
Financing activities		
Decrease in advances from government for federal loans	**(351)**	(303)
Gifts for restricted purposes	**3,580**	11,115
Increase in notes payable	**14,400**	2,320
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	**(15,264)**	(57,574)
Net cash and cash equivalents provided by financing activities	**2,365**	29,803
Net increase in cash and cash equivalents	**7,290**	7,505
Cash and cash equivalents at beginning of the year	**26,055**	18,550
Cash and cash equivalents at end of the year	**$ 33,345**	$ 26,055

University of Dayton

Notes to Financial Statements

June 30, 2010 and 2009

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 6,800 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 investment income on permanently restricted endowment accounts is included in temporarily restricted net assets unless the endowment requires it to be added to the endowment balance.

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 2010, the University released $665,000 in restricted assets ($306,000 for instruction, $2,000 for administrative and general and $357,000 for auxiliary enterprises). 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).

Measure of Operations

The change in unrestricted net assets from operations excludes certain 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 a portion 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 $1,570,000 in 2010 and $1,413,000 in 2009. 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 $355,000 and $380,000 in 2010 and 2009, 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 any 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 if they are 90 days or less to maturity at date of deposit.

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, 2010, securities on loan totaled $19,775,000 for which a total amount of $20,303,000 of collateral had been posted by borrowers; and the market value of the cash collateral held was $19,595,000. As a result of the change in the fair value of the invested cash collateral at June 30, 2010, the University recorded a gain of approximately $490,000 which is included in investment gain in excess of amounts designated for current operations on the statement of activities. 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. These amounts are treated as noncash items for purposes of the cash flow. The market value of noncash collateral at June 30, 2010 and 2009 was $8,000 and $75,000, respectively, and is not recorded in the balance sheets in accordance with ASC 860 *Transfers and Servicing.*

2. Accounting Policies (continued)

Accounts Receivable

Accounts receivable consist of the following as of June 30:

	2010	2009
Amounts due from students for tuition and other fees	**$ 6,500**	$ 6,049
Research contracts	**30,864**	38,427
Other	**3,951**	3,907
	41,315	48,383
Less: allowance for doubtful accounts	**(2,199)**	(2,028)
Total accounts receivable	**$ 39,116**	$ 46,355

The allowance for doubtful accounts is determined based on estimated expected collections on these accounts using prior history. 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.

2. Accounting Policies (continued)

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.

Land, Buildings, and Equipment

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. The cost of repairs and maintenance is generally charged to expense in the year incurred.

Interest Rate Swap Agreements

The University uses interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under these 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 under the swap agreements is recorded as interest expense. The change in fair value of the swap agreements is recorded as a change in unrealized loss on interest rate swap agreements.

2. Accounting Policies (continued)

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, 2010 and 2009 is recorded as a liability of $2,267,000, and $2,339,000, respectively 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, 2010 and 2009 is recorded as a liability of $1,795,000 and $2,007,000, respectively 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, 2010 and 2009 is recorded as a liability of $3,425,000 and $1,759,000, respectively, and are included in other liabilities in the accompanying Statements of Financial Position.

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 2002 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.

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 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 completed an analysis of its tax positions at June 30, 2010 and 2009, in accordance with ASC 740 *Income Taxes*, and determined that no amounts were required to be recognized under FIN No. 48 in the financial statements at June 30, 2010 or 2009.

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.

Fair Value Measurements

The University measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The University's assessment of the significance of a particular input to fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

2. Accounting Policies (continued)

The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

Level 1	Observable inputs such as quoted prices in active markets
Level 2	Inputs, other than quoted prices in active markets, that are observable either directly or indirectly
Level 3	Unobservable inputs for which there is little or no market data, which requires the University to develop assumptions

See Note 9 for further discussion of fair value measurements.

Reclassifications

Certain reclassifications were made to the 2009 financial statement presentation to conform to the 2010 presentation.

New Accounting Pronouncements

Effective July 1, 2009, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FAS Statement No. 162* (ASC). The ASC became the single source of authoritative, nongovernmental U.S. accounting and reporting standards, but it did not change U.S. generally accepted accounting principles in the United States. This was effective for interim and annual periods ending after September 15, 2009. The University adopted the new authoritative guidance as required. Adoption of the new guidance had no impact on the financial results.

The FASB issued authoritative guidance regarding disclosures about derivative instruments and hedging activities that became effective in March 2009. Entities must now provide enhanced disclosures on an interim and annual basis regarding how and why the entity uses derivatives; how derivatives and related hedged items are accounted for; and how derivatives and related hedged items affect the entity’s financial position, financial results and cash flow. The University adopted the new guidance as required. Adoption of the new guidance had no impact on the financial results.

2. Accounting Policies (continued)

In April 2009, the FASB issued FASB Staff Position (FSP) 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly.* FSP 157-4 amended the guidance codified in ASC 820, *Fair Value Measurements and Disclosures*, to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to its normal activity. FSP 157-4 also provided additional guidance on circumstances that may indicate that a transaction is not orderly and on defining major categories of debt and equity securities to comply with the disclosure requirements of ASC 820. The University has adopted the guidance of FSP 157-4 for the year ended June 30, 2010. Adoption of FSP 157-4 did not have a material effect on the financial position, statement of activities, or cash flows of the University.

In September 2009, the FAS issued Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* ASU 2009-12 amended ASC 820 to allow entities to use net asset value (NAV) per share (or its equivalent), as a practical expedient, to measure fair value when the investment does not have a readily determinable fair value and the NAV is calculated in a manner consistent with investment company accounting. The University adopted the guidance in ASU 2009-12 for the year ended June 30, 2010, and have used the practical expedient to measure the fair value of investments within the scope of this guidance based on the investment's NAV. In addition, as a result of adopting ASU 2009-12, the University has provided additional disclosures regarding the nature and risks of investments within the scope of this guidance (see Note 9). Adoption of ASU 2009-12 did not have a material effect on the financial position, statement of activities, or cash flows of the University.

2. Accounting Policies (continued)

In July 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements.* ASU 2010-06 amended certain disclosures required under ASC 820. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each class of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-6 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for periods beginning after December 15, 2009. The adoption of this standard had no effect on the University's financial position, statement of activities, or cash flows.

3. Pledges Receivable

As of June 30, 2010, the University had received unconditional promises from donors totaling a discounted amount of $24,268,000 discounted at 2.0% ($24,612,000 discounted at 4.0% at June 30, 2009), on which management has set up an allowance for uncollectible promises of $1,214,000 ($1,231,000 at June 30, 2009). 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, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	**$ 4,941**	**$ 1,231**	**$ 4,049**	**$ 10,221**
One to five years	**6,528**	**1,498**	**2,399**	**10,425**
More than five years	**2,704**	**156**	**762**	**3,622**
	$ 14,173	**$ 2,885**	**$ 7,210**	**$ 24,268**

	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

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, 2010		June 30, 2009	
	Carrying Value	**Cost**	**Carrying Value**	**Cost**
Cash and cash equivalents	**$ 21,837**	**$ 22,560**	$ 39,675	$ 40,327
Equity securities	**104,605**	**107,860**	113,997	126,035
Equity mutual funds	**92,934**	**110,457**	124,583	172,937
U.S. government	**40,725**	**41,746**	43,961	43,995
Agency obligations	**10,320**	**9,563**	82,585	81,219
Mortgage-backed and asset-backed securities	**2,549**	**2,351**	5,179	5,589
Bonds – corporate/sovereign credits	**17,181**	**16,465**	12,076	11,998
Bonds – municipal	**653**	**664**	879	926
Bond mutual funds and pooled fixed income accounts	**74,392**	**70,993**	–	–
Real estate holdings and limited partnerships	**24,867**	**39,314**	22,383	34,039
Investments in private equity and hedge funds	**112,901**	**114,757**	24,293	30,320
Guaranteed investment contracts	**342**	**342**	299	299
Total	**$ 503,306**	**$ 537,072**	$ 469,910	$ 547,684

4. Investments (continued)

Of the June 30, 2010, total carrying value of $503,306,000 approximately $452,939,000 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.

Some of the real estate and private equity funds have time limitations on liquidation. These vary from six months to the term of the limited partnership, trust, or fund. During this period, the University, unless certain events occur, will be unable to liquidate these investments.

At June 30, 2010, the University has committed capital (yet to be called) of approximately $27,078,000 and $26,135,000 to real estate and private equity funds.

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

	Year Ended June 30, 2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Dividends and interest earnings	**$ 8,354**	**$ 217**	**$ 41**	**$ 8,612**
Net realized and unrealized gains	**39,525**	**7,540**	**43**	**47,108**
Gross return on investments	**47,879**	**7,757**	**84**	**55,720**
Investment return designated for annuity obligations	**–**	**(1,180)**	**–**	**(1,180)**
Total return on investments	**47,879**	**6,577**	**84**	**54,540**
Investment return designated for current operations	**(24,104)**	**–**	**–**	**(24,104)**
Investment gain in excess of amounts designated for current operations	**$ 23,775**	**$ 6,577**	**$ 84**	**$ 30,436**

4. Investments (continued)

	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)

5. Land, Buildings, and Equipment

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

	2010	2009
Buildings	**$ 454,489**	$ 417,225
Equipment	**109,674**	108,615
Land and land improvements	**68,922**	62,960
Library books	**55,405**	52,687
Renovations-in-progress	**13,565**	23,691
	702,055	665,178
Accumulated depreciation	**(255,092)**	(240,245)
	$ 446,963	$ 424,933

Depreciation expense was $19,272,000 and $18,361,000 for the year ended June 30, 2010 and 2009, 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 $8,532,000 in 2010 and $8,058,000 in 2009.

The University provides health care 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 $1,014,000 in 2010 and $978,000 in 2009.

6. Retirement Plans (continued)

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

	2010	2009
Service cost of benefits earned	**$ 984**	$ 1,078
Interest cost on liability	**3,336**	3,488
Amortization of prior service cost	**(118)**	(118)
Net periodic postretirement benefit cost	**$ 4,202**	$ 4,448

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).

	2010	2009
Change in projected benefit obligations		
Benefit obligation at beginning of year	**$ 50,679**	$ 53,060
Service cost	**984**	1,078
Interest cost	**3,336**	3,488
Actuarial loss (gain)	**9,758**	(5,394)
Benefits paid	**(1,958)**	(1,553)
Benefit obligation at end of year	**62,799**	50,679
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	**–**	–
Employer contributions	**1,958**	1,553
Benefits paid	**(1,958)**	(1,553)
Fair value of plan assets at end of year	**–**	–
Net balance sheet liability	**$ 62,799**	$ 50,679

6. Retirement Plans (continued)

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

	2010	2009
Actuarial (loss) gain	**$ (9,758)**	$ 5,394
Prior service cost	**(118)**	(118)
	$ (9,876)	$ 5,276

Included in unrestricted net assets at June 30, 2010 are the following amounts that have not yet been recognized in the net periodic benefit cost: amortization of prior service cost of $590,177 and amortization of net loss of $5,000,082. The net gain and prior service cost expected to be recognized during the year ended June 30, 2010 are $0 and $118,035, respectively.

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 loss of $4,758,178.

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

	2010	2009
Weighted-average discount rate used to determine the projected benefit obligation	**5.25%**	6.75%
Weighted-average discount rate assumption used to determine the net periodic benefit cost	**6.75%**	6.75%

The health care cost trend rate assumption has a significant effect on the amounts reported in the financial statements. 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:

	2010	**2009**
Initial year trend:		
Combined trend pre-Medicare	**8.00%**	8.20%
Combined trend post-Medicare	**7.80%**	8.00%
Combined ultimate trend for pre-1994 and grandfathered retirees:		
Pre-Medicare	**4.50%**	4.50%
Post-Medicare	**4.50%**	4.50%
Combined ultimate trend for non-grandfathered participants and post-1994 retirees:		
Pre-Medicare	**4.50%**	4.50%
Post-Medicare	**No Trend**	No Trend
Year that rates reach the ultimate trend rate	**2028**	2028

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	$ 6,322	$ (5,476)
Effect on net periodic benefit cost	436	(379)

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):

2011	$ 2,803
2012	3,219
2013	3,609
2014	3,921
2015	4,148
2016–2019	23,519

The University plans to make contributions to the plan of $2,803,000 in 2011.

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 $278 million) are pledged as security as well as the revenue 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):

	2010	2009
	(In Thousands)	
$26,945,000 Revenue bonds of 1998, Final payment on these bonds was made in December 2009.	**$ –**	$ 930
$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, 2010), as well as the principal and interest to that date.	**29,710**	30,090
$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.	**20,725**	23,105
Premium on 2001 Revenue bonds	**328**	428
$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.	**50,075**	51,125
Premium on 2003 Revenue bonds	**484**	561

7. Indebtedness (continued)

	2010	2009
	(In Thousands)	
$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.	**39,325**	41,600
Premium on 2004 Revenue bonds	**767**	909
$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.	**71,185**	71,340
Premium on 2006 Revenue bonds	**617**	658
$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.	**73,200**	74,545
Discount on 2009 Revenue bonds	**(460)**	(341)

7. Indebtedness (continued)

	2010	2009
	(In Thousands)	
\$15,000,000 Lease Purchase Agreement of 2001 with Key Corporate Capital and the Ohio Higher Educational Facility Commission; final payment was made in September 2009.	–	99
\$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%. Final payment was made in April 2010.	–	5,000
\$14,400,000 note payable to NCR Corporation dated December 2009 for purchase of land and a building adjacent to the western edge of the main campus. Annual principal payments of \$2,057,143 are due through January 15, 2017 at an interest rate of 1.40% increasing to 4.40%.	**14,400**	–
Various other notes payable	**1,333**	2,983
	\$ 301,689	\$ 303,032

7. Indebtedness (continued)

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

	June 30
2011	$ 40,756
2012	11,648
2013	12,044
2014	12,418
2015	12,789
2016–thereafter	212,034
Total	$ 301,689

As of June 30, 2010, the University had met all of the required repair and replacement reserve and debt service requirements.

Interest expense was $15,473,000 for 2010 ($14,447,000 for 2009). Cash paid for interest expense was $15,591,000 for 2010 ($13,929,000 in 2009).

The University maintains revolving credit agreements with local banks totaling $30,000,000. The agreements which are $15,000,000 each are due to expire on December 11, 2011 and April 30, 2011. The University did not draw on these agreements during fiscal year 2010. There was no balance outstanding under either of these agreements at June 30, 2010 or 2009.

As of June 30, 2010, the University has two major renovations in progress: the Stuart Hall renovations and Central Mall project. Total commitments related to these projects amounted to approximately $2,500,000. These construction projects are financed through the 2009 bond offering mentioned above and a possible future bond offering.

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	
	2010	**2009**
Instruction	**$ 16,758**	$ 16,510
Administrative and general	**2,873**	2,842
Organized research	**51**	33
Libraries	**3,130**	2,831
Student aid	**33,208**	31,205
Auxiliary enterprises	**2,636**	2,238
	$ 58,656	$ 55,659

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

	June 30	
	2010	**2009**
Instruction	**$ 49,669**	$ 48,647
Administrative and general	**10,043**	9,734
Organized research	**2,522**	2,519
Libraries	**4,196**	4,195
Student aid	**61,533**	59,256
Auxiliary enterprises	**186**	134
	$ 128,149	$ 124,485

9. Fair Value of Financial Instruments

The University records investments in cash and cash equivalents, equity securities, equity mutual funds, and agency accounts at their current fair values based on quoted market prices in active markets for identical assets, which is consistent with Level 1 in the hierarchy.

The University records its investments in government bonds, mortgage and asset backed securities, and bonds (corporate/sovereign credits and municipal) at their current fair values based on quoted market prices in markets that are not active for all significant inputs, which is consistent with Level 2 in this hierarchy. Some mutual funds not actively traded in open markets are also included in this category.

The University also holds investments in various limited partnerships, real estate investment trusts, and other private instruments. These investments are treated as Level 3 in the hierarchy. The University records its investments in these investments at their reported NAV, which represents fair value as reported by the general partner or fund manager. Investments held in publicly traded securities are generally valued at quoted market prices. Investments without readily determinable quoted market prices in active markets are valued based on estimates by partnership managers and various valuation committees, and such valuation estimates consider cost data, restrictions affecting marketability, operating results, financial condition of the underlying portfolio company, and the price of most recent financing transactions. In management’s opinion, the stated values approximate fair values determined by 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 such differences could be material.

9. Fair Value of Financial Instruments (continued)

The following is a summary of the inputs used as of June 30 in valuing the University's assets and liabilities carried at value (in thousands):

	Fair Value Measurements at June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments				
Cash and cash equivalents	**$ 11,635**	**$ 10,202**	**$ –**	**$ 21,837**
Equity securities	**104,605**	**–**	**–**	**104,605**
Equity mutual funds	**35,483**	**56,673**	**778**	**92,934**
U.S. government	**1,245**	**39,480**	**–**	**40,725**
Agency obligations	**–**	**10,320**	**–**	**10,320**
Mortgage-backed and asset-backed securities	**–**	**2,549**	**–**	**2,549**
Bonds – corporate/sovereign credits	**–**	**17,181**	**–**	**17,181**
Bonds – municipal	**–**	**653**	**–**	**653**
Bond mutual funds and pooled fixed income accounts	**74,392**	**–**	**–**	**74,392**
Real estate holdings and limited partnerships	**–**	**–**	**19,569**	**19,569**
Investments in private equity and hedge funds	**–**	**–**	**112,901**	**112,901**
Guaranteed investment contracts	**–**	**–**	**342**	**342**
Collateral held for securities lending agreement	**–**	**19,595**	**–**	**19,595**
	$ 227,360	**$** 156,653	**$ 133,590**	**$ 517,603**
Liabilities				
Other liabilities – interest rate swap liability	**$ –**	**$ –**	**$ 7,487**	**$ 7,487**
Total liabilities at fair value	**$ –**	**$ –**	**$ 7,487**	**$ 7,487**

9. Fair Value of Financial Instruments (continued)

	Fair Value Measurements at June 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investments				
Cash and cash equivalents	$ 28,684	$ 10,991	$ –	$ 39,675
Equity securities	113,997	–	–	113,997
Equity mutual funds	636	123,237	710	124,583
U.S. government	–	43,961	–	43,961
Agency obligations	–	82,585	–	82,585
Mortgage-backed and asset-backed securities	–	5,179	–	5,179
Bonds – corporate/sovereign credits	–	12,076	–	12,076
Bonds – municipal	–	879	–	879
Real estate holdings and limited partnerships	–	–	16,565	16,565
Investments in private equity and hedge funds	–	–	24,293	24,293
Guaranteed investment contracts	–	–	299	299
Collateral held for securities lending agreement	–	27,172	–	27,172
Total assets at fair value	$ 143,317	$ 306,080	$ 41,867	$ 491,264
Liabilities				
Other liabilities – interest rate swap liability	$ –	$ –	$ 6,105	$ 6,105
Total liabilities at fair value	$ –	$ –	$ 6,105	$ 6,105

9. Fair Value of Financial Instruments (continued)

Various real estate investments are recorded at cost and are deemed to be at fair value as of June 30, 2010 and June 30, 2009.

The 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	$ 52,740
Transfers and reclassifications	–
Net purchases	8,687
Realized gain	296
Change in unrealized (depreciation)	(19,856)
Balance as of June 30, 2009	$ 41,867
Transfers and reclassifications	–
Net purchases	**89,475**
Realized gain	**1,589**
Change in unrealized appreciation	**659**
Balance as of June 30, 2010	**$ 133,590**

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
Transfers and reclassifications	**–**
Unrealized loss due to change in market value	**1,382**
Balance as of June 30, 2010	**$ 7,487**

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 $323,052,000 and was estimated using discounted cash flows.

10. Endowment Funds

In August 2008, the FASB issued ASC 958, *Not-for-Profit Entities*, which 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 ASC 958 on July 1, 2008.

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 $12,421,000 recorded as of June 30, 2010 and a deficiency of $16,412,000 recorded as of June 30, 2009.

10. Endowment Funds (continued)

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.

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			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at June 30, 2009	**$ 155,769**	**$ 48,766**	**$ 124,433**	**$ 328,968**
Investment return (loss):				
Investment income	**4,077**	**1,682**	**43**	**5,802**
Net appreciation(realized and unrealized)	**25,307**	**10,497**	**–**	**35,804**
Contributions	**551**	**–**	**3,621**	**4,172**
Other (additions and deletions to endowment)	**(2,762)**	**(3,991)**	**(167)**	**(6,920)**
Appropriation of endowment assets for expenditure	**(5,963)**	**(6,313)**	**–**	**(12,276)**
Endowment net assets at June 30, 2010	**$ 176,979**	**$ 50,641**	**$ 127,930**	**$ 355,550**

10. Endowment Funds (continued)

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	5,613	3,124	–	8,737
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	(7,702)	(8,582)	–	(16,284)
Endowment net assets at June 30, 2009	$ 155,769	$ 48,766	$ 124,433	$ 328,968

11. Subsequent Events

The University has evaluated and disclosed any subsequent events through October 28, 2010, which is the date the financial statements were issued and made available.

Ernst & Young LLP
1900 Scripps Center
312 Walnut Street
Cincinnati, Ohio 45202
Tel: 513 612 1400
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, 2010 and 2009, 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, 2010 and 2009, 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 new accounting guidance related to net asset classification of donor-restricted endowment funds.

Ernst & Young LLP

October 28, 2010

Management Discussion and Analysis

The University's total assets have increased by $51.5 million at June 30, 2010. This increase was the result of favorable market performance, campus improvements, and continued management of operating accounts. In addition, significant changes were made to the investment portfolio composition and fund managers during the year. The University now invests more in private equity and hedge funds than in the previous years. In December 2009, the University acquired the former world headquarters, and surrounding land of NCR Corporation (NCR) for $18 million. Major renovations were made to Virginia Kettering and Stuart residence halls, and a new Central Mall was constructed between Marycrest Hall and Kennedy Union.

After factoring in the new $14.4 million note for the NCR property the University's indebtness decreased by $1.3 million. The NCR note has installment payments through January 15, 2017.

The postretirement liability (OPEB) has increased by $12 million from 2009 because of the change in the discount rate from 6.75% to 5.25%. The decrease in the discount rate was in response to the current economic environment.

Condensed Statement of Financial Policies

June 30
(in thousands)

	2010	2009	Increase (Decrease)	Percent Change
Current Assets	$ 77,836	$ 77,570	$ 266	0%
Collateral Held for Securities Lending Agreement	19,595	27,172	(7,577)	-28%
Pledges, Notes Receivable	43,665	40,256	3,409	8%
Investments	503,306	469,910	33,396	7%
Land, Buildings, and Equipment	446,963	424,933	22,030	5%
Total Assets	$ 1,091,365	$ 1,039,841	$ 51,524	5%
Current Liabilities	$ 84,093	$ 89,249	$ (5,156)	-6%
Liability under Securities Lending Agreement	20,303	28,370	(8,067)	-28%
Indebtedness	301,689	303,032	(1,343)	-0.4%
Accrued Postretirement Benefits	62,799	50,679	12,120	24%
Advances from Government	11,746	12,097	(351)	-3%
Total Liabilities	$ 480,630	$ 483,427	$ (2,797)	-1%
Unrestricted	$ 423,930	$ 376,270	$ 47,660	13%
Temporarily Restricted	58,656	55,659	2,997	5%
Permanently Restricted	128,149	124,485	3,664	3%
Total Net Assets	$ 610,735	$ 556,414	$ 54,321	10%

Total operating revenues decreased $14 million to $397 million, including a reduction in private gifts as a large gift was received in 2009 and a reduction in the investment return for operations of $4 million.

The University's spending policy on the long term investment pool allowed for 5.0% spending rate for fiscal year 2010. Total return on investments for the year was $54.5 million or 11%. The University's spending policy allocated $24 million to be used for operations with a $30 million gain considered a non-operating item.

Operating expenses remained consistent with 2009 as departments were asked to control expenditures.

Condensed Statement of Activities for the Years Ended

June 30
(in thousands)

	2010	2009	Increase (Decrease)	Percent Change
Operating Revenues, Gains, and Other Support				
Net Student Tuition and Fees	$167,767	$ 164,595	$ 3,172	2%
Private Gifts, Grants and Other	43,905	55,178	(11,273)	-20%
Government Grants and Contracts	88,185	87,990	195	0%
Investment Return Used for Operations	24,104	28,994	(4,890)	-17%
Auxiliary Enterprises	72,887	73,863	(976)	-1%
Total Revenues	396,848	410,620	(13,772)	-3%
Less Expenditures				
Instruction	121,691	117,219	4,472	4%
Administrative, General and Other	49,676	51,705	(2,029)	-4%
Libraries	10,260	10,016	244	2%
Sponsored Academic Projects	13,187	14,322	(1,135)	-8%
Organized Research	91,154	91,962	(808)	-1%
Auxiliary Enterprises	75,737	74,436	1,301	2%
Total Expenditures	361,705	359,660	2,045	1%
Net Operating Revenue	35,143	50,960	(15,817)	-31%
Investment Gain (Loss) in Excess of Amounts Used for Current Operations	30,436	(154,167)		
Change in Unrealized Loss on Interest Rate Agreements	(1,382)	(5,396)		
Change in post-retirement Benefit Obligation	(9,876)	5,276		
Change in Net Assets	54,321	(103,327)		
Net Assets, Beginning of Year	556,414	659,741		
Net Assets, End of Year	$610,735	$ 556,414		

Members of the Board
2010–2011

UNIVERSITY *of*
DAYTON