MARQUETTE UNIVERSITY

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors’ Report Thereon)

MARQUETTE UNIVERSITY

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KPMG LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

The Board of Trustees
Marquette University:

We have audited the accompanying statements of financial position of Marquette University (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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marquette University as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 5 to the financial statements, the University adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position No. 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*, included in FASB Accounting Standards Codification Topic 958, *Not-for-Profit Entities*, as of July 1, 2009.

KPMG LLP

Milwaukee, Wisconsin
September 9, 2010

MARQUETTE UNIVERSITY

Statements of Financial Position

June 30, 2010 and 2009

(Dollars in thousands)

Assets		**2010**	**2009**
Cash and cash equivalents	$	27,775	41,000
Collateral held under securities lending agreement		38,264	44,426
Unexpended bond proceeds		11,541	76,603
Contributions receivable, less allowance for uncollectible pledges of $2,399 and $2,304 in 2010 and 2009, respectively		81,498	83,682
Accounts receivable, less allowance for uncollectible accounts of $2,239 and $2,192 in 2010 and 2009, respectively		16,348	15,995
Prepaid expenses and deferred charges		6,338	5,560
Student loans receivable, less allowance for uncollectible accounts of $86 and $81 in 2010 and 2009, respectively		44,660	45,045
Investments		374,009	325,634
Funds held in trust by others		24,221	24,112
Other assets		1,321	1,511
Net property, buildings, and equipment		454,483	390,099
Total assets	$	1,080,458	1,053,667
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	10,865	20,047
Accrued liabilities		20,651	21,244
Payables under securities lending agreement		39,426	47,751
Student credits and other advance payments		6,823	6,408
Deferred income and deposits		18,687	32,895
Payable to beneficiaries under split-interest agreements		5,409	5,660
Refundable federal loan grants		37,313	36,917
Postretirement benefits payable		4,038	3,407
Notes and bonds payable		225,452	232,115
Total liabilities		368,664	406,444
Net assets:			
Unrestricted		171,046	174,794
Temporarily restricted		268,157	216,020
Permanently restricted		272,591	256,409
Total net assets		711,794	647,223
Total liabilities and net assets	$	1,080,458	1,053,667

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student tuition and fees – gross	$ 289,183	—	—	289,183
Less tuition discounts	(83,855)	—	—	(83,855)
Net tuition and fees	205,328	—	—	205,328
Government and private grants	24,944	—	—	24,944
Contributions	2,102	40,503	14,958	57,563
Auxiliary enterprises	41,914	—	—	41,914
Sales by educational departments	8,731	—	—	8,731
Investment income (loss)	1,001	276	(170)	1,107
Endowment income used in operations	4,208	10,268	161	14,637
Other income	15,726	—	—	15,726
Total operating revenues	303,954	51,047	14,949	369,950
Net assets released from restrictions	28,026	(28,026)	—	—
Total operating revenues and net assets released from restrictions	331,980	23,021	14,949	369,950
Operating expenses:				
Instruction	99,873	—	—	99,873
Academic support	39,152	—	—	39,152
Research and grants	21,962	—	—	21,962
Libraries	18,466	—	—	18,466
Student services	45,189	—	—	45,189
Auxiliary enterprises	38,271	—	—	38,271
Institutional support	64,558	—	—	64,558
Public services	3,409	—	—	3,409
Total operating expenses	330,880	—	—	330,880
Operating income	1,100	23,021	14,949	39,070
Nonoperating income (expenses):				
Endowment gain in excess of amounts designated for current operations, net	18,483	7,432	354	26,269
Other	(1,499)	(148)	879	(768)
Total nonoperating income, net	16,984	7,284	1,233	25,501
Endowment net asset reclassification based on change in law	(21,832)	21,832	—	—
Change in net assets	(3,748)	52,137	16,182	64,571
Net assets, beginning of year	174,794	216,020	256,409	647,223
Net assets, end of year	$ 171,046	268,157	272,591	711,794

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statement of Activities

Year ended June 30, 2009

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student tuition and fees – gross	$ 277,511	—	—	277,511
Less tuition discounts	(76,316)	—	—	(76,316)
Net tuition and fees	201,195	—	—	201,195
Government and private grants	23,006	—	—	23,006
Contributions	4,654	19,612	9,356	33,622
Auxiliary enterprises	41,053	—	—	41,053
Sales by educational departments	8,281	—	—	8,281
Investment income (loss)	1,495	70	(216)	1,349
Endowment income used in operations	4,003	9,189	240	13,432
Other income	13,685	—	—	13,685
Total operating revenues	297,372	28,871	9,380	335,623
Net assets released from restrictions	31,410	(31,410)	—	—
Total operating revenues and net assets released from restrictions	328,782	(2,539)	9,380	335,623
Operating expenses:				
Instruction	97,550	—	—	97,550
Academic support	39,571	—	—	39,571
Research and grants	19,433	—	—	19,433
Libraries	17,378	—	—	17,378
Student services	45,534	—	—	45,534
Auxiliary enterprises	38,234	—	—	38,234
Institutional support	68,550	—	—	68,550
Public services	1,309	—	—	1,309
Total operating expenses	327,559	—	—	327,559
Operating income (loss)	1,223	(2,539)	9,380	8,064
Nonoperating income (expenses):				
Endowment loss in excess of amounts designated for current operations, net	(87,119)	(2,400)	(775)	(90,294)
Other	(915)	(153)	2,126	1,058
Total nonoperating income (expenses), net	(88,034)	(2,553)	1,351	(89,236)
Change in net assets	(86,811)	(5,092)	10,731	(81,172)
Net assets, beginning of year	261,605	221,112	245,678	728,395
Net assets, end of year	$ 174,794	216,020	256,409	647,223

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	64,571	(81,172)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		26,295	30,045
Discount amortization		295	373
Net realized and unrealized (appreciation) depreciation on investments		(36,739)	82,301
Bad debt expense		550	169
Contributions for major capital projects including gifts in kind		(29,494)	(9,078)
Contributions restricted for long-term endowments		(14,958)	(9,356)
Permanently restricted endowment income used in operations		(161)	(240)
(Gain) loss on sale of property, buildings, and equipment		4	(17)
Change in assets and liabilities:			
Decrease (increase) in accounts receivable		(775)	2,699
Decrease in contributions receivable		5,083	1,965
Decrease (increase) in funds held in trust by others		(109)	81
Increase in other assets, net		(934)	(12)
Increase (decrease) in accounts payable		(2,877)	1,173
Increase (decrease) in accrued liabilities		(810)	462
(Decrease) increase in student credits and other advance payments		415	(63)
(Decrease) increase in deferred income and deposits		792	(868)
Decrease in payables to beneficiaries under split-interest agreements		(251)	(770)
Increase in postretirement benefits payable		631	130
Net cash provided by operating activities		11,528	17,822
Cash flows from investing activities:			
Purchases of property, buildings, and equipment		(96,704)	(64,419)
Proceeds from sale of property, buildings, and equipment		117	17
Student loan repayments		6,271	6,348
Student loans issued		(5,919)	(6,012)
Purchase of investments from bond proceeds		—	(83,660)
Proceeds from sale of investments from bond proceeds		65,062	48,557
Decrease in payables under securities lending agreement		(8,325)	(4,679)
Decrease in cash collateral held under securities lending agreement		6,162	8,004
Purchase of investments		(341,325)	(531,213)
Proceeds from the sale of investments		329,689	527,754
Net cash used in investing activities		(44,972)	(99,303)
Cash flows from financing activities:			
Contributions received for major capital projects		14,310	14,078
Contributions restricted for long-term endowments		11,964	12,014
Permanently restricted endowment income used in operations		161	240
Net federal loan activity		396	(137)
Proceeds from issuance of long-term debt		84,595	83,660
Repayment of notes and bonds payable		(91,207)	(19,622)
Net cash provided by financing activities		20,219	90,233
Net (decrease) increase in cash and cash equivalents		(13,225)	8,752
Cash and cash equivalents, beginning of year		41,000	32,248
Cash and cash equivalents, end of year	$	27,775	41,000

See accompanying notes to financial statements.

(1) Organization

Marquette University (the University) is an independent, coeducational, not-for-profit institution of higher learning and research located in Milwaukee, Wisconsin, formally opened in 1881 and conducted under the auspices of the Society of Jesus. Through its 12 separate colleges and schools, the University offers bachelor's degree programs, master's degree programs, doctoral degree programs, and post-baccalaureate first professional degree programs.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the University have been prepared, in all material respects, on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP).

Net assets of the University, and changes therein, are classified and reported as follows:

Unrestricted Net Assets are not subject to donor-imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the net assets released from restriction.

Temporarily Restricted Net Assets are subject to donor-imposed restrictions that will be met either by actions of the University, the passage of time, or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of property and equipment are recorded at fair value at the date of donation. In the absence of donor stipulations detailing how long the contributed assets must be used, the University has adopted a policy of implying a time restriction on contributions of such assets that expire over the assets' useful lives. As a result, all contributions of property and equipment, and assets contributed to acquire property and equipment, are recorded as temporarily restricted net assets.

Permanently Restricted Net Assets are subject to donor-imposed restrictions to be maintained permanently by the University. Items that are included are gifts and contributions for which donors stipulate that the corpus be held in perpetuity and the income from those assets be made available for scholarships or program operations and annuity or life income gifts for which the ultimate purpose is permanently restricted.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash on deposit for operations and all highly liquid financial instruments with original maturities of three months or less are classified as cash equivalents, except those amounts assigned to investment managers, which are classified as investments. The fair value of cash equivalents is estimated to be the same as book value due to the short maturity of these instruments.

(d) Unexpended Bond Proceeds

Unexpended bond proceeds represent the amount of unspent revenue bond proceeds that remain available for their specified purpose and are reported at fair value based upon market quotes. These amounts are maintained in a trust and invested by the trustee primarily in short-term U.S. government securities. Under the terms of the trust, proceeds are not released to the University until expenditures related to the specific purpose of the bond indenture are incurred.

(e) Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges consist of deferred financing costs and prepaid insurance, maintenance and other costs associated with future periods. Deferred financing costs are being amortized using the straight-line method, which approximates the interest method, over the lives of the respective debt issues.

(f) Investments

Investments are reported at fair value based on market quotes with unrealized gains and losses thereon included in the statements of activities. When a ready market for the investments does not exist, management's valuations for certain alternative investments and commingled funds (primarily investments in limited partnerships, hedge funds, and real estate) are recorded using net asset value as a practical expedient in estimating fair value, based on information provided by fund managers or general partners. The estimated values are reviewed and evaluated by the University.

(g) Student Loans Receivable

Student loans receivable consist of both federal and institutional loans. At June 30, 2010 and 2009, the U.S. government had provided 12% of the funds for the federal student loan programs and the University provided the remaining 88%. The initial receipt of U.S. government funds is recorded as a liability on the statements of financial position. A portion of the student loan may be canceled if the student meets certain criteria. The University will either be reimbursed by the U.S. government for its portion of the canceled loan or will reduce the refundable federal loan liability.

The University records an allowance for uncollectible accounts for its portion of the student loans when, in management's judgment, it is probable a portion of the loan will not be collected. Principal and interest payments received under the federal student loan programs are either disbursed as new student loans or returned to the U.S. government as required.

(Dollars in thousands)

(h) Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost at date of acquisition or fair value at date of donation including, where appropriate, capitalized interest. Property and equipment under capital leases are initially valued and recorded on the present value of minimum lease payments. The University depreciates buildings, building improvements, land improvements, equipment, and library contents over the estimated useful lives of the assets (25 to 50, 10 to 20, 10 to 20, 5 to 7, and 20 years, respectively) using the straight-line method. Leasehold improvements are amortized over the shorter of the expected useful life of the asset or term of the related lease. Major renewals and improvements that extend the useful life of an asset are capitalized, while repairs and maintenance costs are expensed as incurred. Depreciation is not calculated on land, art collections, rare books and construction in progress. The University reviews each individual property or grouping of assets with separately identifiable cash flows for possible impairment whenever circumstances indicate that the carrying amount may not be recoverable. Measurement of an impairment loss for long-lived assets that the University expects to hold and use is based on the fair value of the asset. Properties that are expected to be disposed are reported at the lower of the carrying amount or estimated fair value less cost to sell. For properties intended for disposal, the useful life is adjusted to reflect the expected remaining period of service.

Property, buildings, and equipment include the following at June 30, 2010 and 2009:

		2010	2009
Land and improvements	$	37,860	35,151
Buildings and improvements		444,392	402,217
Construction in progress		89,629	61,009
Furniture, fixtures, and equipment		128,002	124,656
Library contents		99,969	95,498
Less accumulated depreciation		(345,369)	(328,432)
Net property, buildings, and equipment	$	454,483	390,099

Construction in progress includes the following as of June 30, 2010 and 2009:

		2010	2009
New law school building	$	72,746	27,104
Student services and external relations building		—	16,179
Other renovation and construction projects		16,883	17,726
Total construction in progress	$	89,629	61,009

(i) Asset Retirement Obligations

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*, the University records all known asset retirement obligations for which the liability's fair value can be reasonably estimated, primarily asbestos removal. The determination of the asset retirement obligation is based upon a number of assumptions that incorporate the University's knowledge of facilities, the asset lives, the estimated timeframes for periodic renovations, the current cost for remediation of asbestos, and the current technology at hand to accomplish the remediation work. These assumptions to determine the asset retirement obligation may be imprecise or be subject to changes in the future. Any change in the assumptions can impact the value of the determined liability and impact future operating results of the University.

(Dollars in thousands)

In accordance with ASC Topic 410, the University has the following recorded as of June 30:

		2010	2009
Building cost	$	509	520
Accumulated depreciation		(291)	(294)
Net building cost	$	218	226
Asset retirement obligation (included in accrued liabilities)	$	4,507	4,640

(j) Student Tuition and Fees

Student tuition, fees, and housing are recorded as revenues during the year the related academic services are rendered. Student deposits and advance payments for tuition, room, and board related to the next semester have been deferred and will be reported as unrestricted revenue in the year in which the academic services are rendered.

(k) Auxiliary Enterprises

Auxiliary enterprises include revenues and expenses of the University's residence halls, parking services, and gift shops.

(l) Contributions

Contributions, including unconditional promises to give (pledges), are recorded as operating revenue. Gifts, excluding artwork, are recognized in the appropriate category of net assets in the period received. Temporarily restricted contributions and restricted investment income whose restrictions are met in the same reporting period are reported as temporarily restricted revenues and as net assets released from restrictions in the statements of activities. Contributions are recorded at their estimated fair value at the date the gift is received. Pledges receivable due beyond one year are stated at estimated net present value, net of an allowance, and recorded as temporarily restricted net assets until cash payments are received and donor restrictions are fulfilled. Contributions with donor imposed conditions are not recognized unless it is reasonably expected that the conditions can be met.

(m) Operating Results

Operating results (change in unrestricted net assets from operating activity) in the statements of activities reflect all transactions that change unrestricted net assets, except for activity associated with endowment investments and certain other nonrecurring items. In accordance with the University's endowment distribution policy as described in note 5, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue. Operating investment income consists of dividends, interest, and realized gains and losses on unrestricted nonendowed investments.

The University's primary programs are instruction, research, and public service. Academic support, student services, and auxiliary enterprises are considered integral to the delivery of these programs. Fundraising costs are not material to the University's total program costs. Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic facility usage surveys. Interest expense on external debt is allocated to the activities that have most directly benefited from the debt proceeds.

(n) Income Taxes

The University is generally exempt from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code) and is a tax-exempt organization described in Sections 501(c)(3), 509(a)(1), and 170(b)(1)(A)(ii) of the Code.

The FASB issued guidance prescribing a comprehensive model for how an organization should recognize, measure, present, and disclose in its financial statements uncertain tax positions. The University adopted this guidance, which is included in ASC Topic 740, I*ncome Taxes*. This guidance addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The University must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of June 30, 2010 and 2009, the University did not have a liability for unrecognized tax benefits.

(o) Art Collection

The University has various collections of fine arts in museums, libraries, and on loan. The University does not assign or record a value to art works and other collections received as gifts or purchased with contributions restricted for that purpose. Valuations for some collections are updated periodically, and as such, the total value of all fine arts may vary with appraisals and/or auction prices. Accordingly, the value of fine art and other collections has been excluded from the statements of financial position. Proceeds, if any, from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The art and other collections are subject to a requirement that proceeds from their sales be used to acquire other items for collections. Fine arts are included in insurance coverage for University property and a separate policy is also secured for fine

(Continued)

(Dollars in thousands)

art of high value and where appraised values are listed. As of June 30, 2010 and 2009, the specific policy covering highly valued works provides for insured coverage at $75,000 and $72,500, respectively, aggregate limit for any one loss or any one occurrence and includes some appraised items from library collections. As of June 30, 2010 and 2009, additional fine art values covered for loss in other insurance programs are estimated at approximately $3,775 and $3,750, respectively.

(p) Change in Donor Designation

When donors amend or clarify intent for applicable gifts and contributions reported in a previous fiscal year, revisions are reflected within the statement of activities as a nonoperating item.

(q) Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation.

(3) Investments

Cost and estimated fair values of investments as of June 30, 2010 and 2009 were as follows:

	2010		2009	
	Cost	**Fair value**	**Cost**	**Fair value**
Money funds and other	$ 12,564	12,563	14,776	14,776
Federal, state and local agencies securities	54,195	55,329	45,659	45,985
Nongovernment bonds and notes	15,547	15,302	15,269	13,679
Foreign bonds and notes	2,105	2,175	1,853	1,802
Common and preferred stocks	47,929	51,262	57,811	55,095
Mutual funds and commingled funds	106,847	96,249	108,302	90,493
Real estate limited partnership and membership interests	12,575	7,395	9,792	5,194
Alternative investments	120,128	133,734	97,706	98,610
Total investments	$ 371,890	374,009	351,168	325,634

(Dollars in thousands)

The University's investments at fair value are categorized as of June 30, 2010 and 2009 as follows:

		2010	2009
Investments permanently restricted by donors	$	227,590	212,751
Investments functioning as endowment		84,765	60,447
Total investments subject to endowment spending policy		312,355	273,198
Long-term cash management investments		36,226	28,100
Trust and other investments		25,428	24,336
Total investments	$	374,009	325,634

"Investments functioning as endowment" are investments not restricted by donors, but are designated by the University for endowment purposes.

Investment returns as of June 30, 2010 and 2009 comprise the following:

		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	$	2,199	3,199	(124)	5,274
Gain on investments, net		21,493	14,777	469	36,739
Return on investments	$	23,692	17,976	345	42,013
Return on investments are classified on the statement of activities as follows:					
Investment income (loss)	$	1,001	276	(170)	1,107
Endowment income used in operations		4,208	10,268	161	14,637
Endowment gain in excess of amounts designated for current operations, net		18,483	7,432	354	26,269
Return on investments	$	23,692	17,976	345	42,013

Return on investments is net of investment fees of $1,217.

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(Dollars in thousands)

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	$	3,116	3,791	(119)	6,788
Gain (loss) on investments, net		(84,737)	3,068	(632)	(82,301)
Return on investments	$	(81,621)	6,859	(751)	(75,513)
Return on investments are classified on the statement of activities as follows:					
Investment income (loss)	$	1,495	70	(216)	1,349
Endowment income used in operations		4,003	9,189	240	13,432
Endowment loss in excess of amounts designated for current operations, net		(87,119)	(2,400)	(775)	(90,294)
Return on investments	$	(81,621)	6,859	(751)	(75,513)

Return on investments is net of investment fees of $1,273.

The University participates in a securities lending arrangement with M&I Global Securities Lending (M&I) whereby certain marketable securities owned by the University and included in the pooled endowment are loaned to designated counterparties (borrowers) in exchange for acceptable collateral, which is typically cash or short maturity U.S. treasury securities. The University may recall securities loaned on short notice. The borrower must post collateral that has a market value of at least 102% of the value of the securities loaned. The collateral is held in custody by M&I and pooled with collateral maintained for other participants in this program. M&I indemnifies the University against loss on the securities loaned as a result of the borrower's default. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

As of June 30, 2010 and 2009, the University had loaned securities with a market value of $38,271 and $46,474, respectively, that were secured by collateral with a market value of approximately $38,264 and $44,426, respectively. The collateral received in connection with the security lending program and the obligation to return such collateral are reported as an asset and liability for financial statement purposes. Unrealized losses of $1,162 and $3,325 related to market value losses of the collateral were recorded as of June 30, 2010 and 2009, respectively.

(4) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.

Level 2: Inputs, other than quoted prices in active markets such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs where there is little or no market data and requires the reporting entity to develop its own assumptions and generally includes alternative investments, real estate limited partnership and membership interests, and commingled funds.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used. Care should be exercised in deriving conclusions about the University's value or financial position based on the fair value information of financial assets presented below.

Fair values of cash and cash equivalents are based on observable market quotation prices provided by investment managers and the custodian bank at the reporting date.

Funds held in collateral under the securities lending agreement are based on quoted market prices provided by the custodian bank. The custodian banks use a variety of pricing sources to determine market valuations. Observable market quoted prices and specific pricing services or indexes are used to value investments. The securities portfolio is highly liquid, generally allowing the portfolio to be priced through pricing services.

Unexpended bond proceeds are invested in various securities based on expected risk, returns and maturities that mirror the anticipated timing of construction project payment needs. Fair values of unexpended bond proceeds securities are based on prices provided by the trustee bank. Unexpended bond proceeds include cash equivalents and equity securities where their fair values are based on observable market quotation prices. The trustee bank uses a variety of pricing sources to determine market valuations of fixed maturity securities. The specific pricing services or indexes for each sector of the market are based upon the provider's expertise. The fixed maturity securities are highly liquid, allowing the portfolio to be priced through pricing services.

Funds held in trust by others are based on quoted market prices provided by its investment managers and custodian bank. Both the investment managers and the custodian banks use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The securities portfolio is highly liquid, generally allowing the portfolio to be priced through pricing services.

(Continued)

Investments include money funds, federal, state, nongovernment and foreign fixed income securities, stocks, mutual funds, real estate and alternative investments. Investments are based on valuations provided by external investment managers and the custodian banks. Valuations provided by external investment managers and the custodian bank include observable market quotation prices, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions and other methods that are reviewed by management. Alternative investments are valued using net asset value as a practical expedient in estimating fair value; however, it is possible that the redemption rights of certain investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of the University's interests in the funds.

Payable under the securities lending agreement is based on quoted market prices provided by the custodian bank. The custodian banks use a variety of pricing sources to determine market valuations. Observable market quoted prices and specific pricing services or indexes are use to value investments. The securities portfolio is highly liquid, generally allowing the portfolio to be priced through pricing services.

(Continued)

(Dollars in thousands)

The following table presents the University's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2010:				
Financial assets:				
Cash and cash equivalents	$ 27,775	27,775	—	—
Collateral held under securities lending agreement	38,264	—	38,264	—
Unexpended bond proceeds	11,541	11,541	—	—
Investments:				
Money funds and other	12,563	—	12,563	—
Federal, state, and local agency securities	55,329	83	55,246	—
Nongovernment bonds and notes	15,302	577	14,626	99
Foreign bonds and notes	2,175	—	2,122	53
Common and preferred stocks	51,262	51,262	—	—
Mutual funds and commingled funds	96,249	48,025	48,224	—
Real estate limited partnership and membership interests	7,395	—	—	7,395
Alternative investments	133,734	—	—	133,734
Total investments	374,009	99,947	132,781	141,281
Funds held in trust by others	24,221	—	24,221	—
Total assets	$ 475,810	139,263	195,266	141,281
Financial liabilities:				
Payables under securities lending agreement	$ 39,426	—	39,426	—
Total liabilities	$ 39,426	—	39,426	—

(Continued)

(Dollars in thousands)

The following table presents additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2010:

		Level 3
Financial assets:		
Beginning balance June 30, 2009	$	103,804
Net income including realized gains		175
Unrealized gains, net		12,115
Purchases and sales, net		25,187
Ending balance June 30, 2010	$	141,281

(Dollars in thousands)

The following table presents the University's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2009. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2009:				
Financial assets:				
Cash and cash equivalents	$ 41,000	41,000	—	—
Collateral held under securities lending agreement	44,426	—	44,426	—
Unexpended bond proceeds	76,603	29,996	46,607	—
Investments:				
Money funds and other	14,776	960	13,816	—
Federal, state, and local agency securities	45,985	—	45,985	—
Nongovernment bonds and notes	13,679	606	13,073	—
Foreign bonds and notes	1,802	—	1,802	—
Common and preferred stocks	55,095	55,095	—	—
Mutual funds and commingled funds	90,493	46,100	44,393	—
Real estate limited partnership and membership interests	5,194	—	—	5,194
Alternative investments	98,610	—	—	98,610
Total investments	325,634	102,761	119,069	103,804
Funds held in trust by others	24,112	—	24,112	—
Total assets	$ 511,775	173,757	234,214	103,804
Financial liabilities:				
Payables under securities lending agreement	$ 47,751	—	47,751	—
Total liabilities	$ 47,751	—	47,751	—

(Continued)

(Dollars in thousands)

The following table presents additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2009:

		Level 3
Financial assets:		
Beginning balance June 30, 2008	$	78,090
Net income including realized gains		57
Unrealized losses, net		(15,059)
Purchases and sales, net		40,716
Ending balance June 30, 2009	$	103,804

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010 are as follows:

		Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commodity funds	$	11,935	—	Monthly	10 days
Equity long/short hedge funds		61,604	—	Quarterly, Annually	60 – 100 days
Multi-strategy hedge funds		35,721	—	Annually	180 days
Fixed income arbitrage funds		18,478	—	Annually	60 days
Private equity partnerships		25,326	42,362		
Total	$	153,064	42,362		

Commodity funds include investments in partnerships that invest in long-only equities and commodity derivatives that are traded on public exchanges. The net asset value of investments in this category has been estimated based on the ownership interest in the partnerships. The funds provide full disclosure of the underlying holding and ownership interest, which allows the University to verify its account balance.

Equity long/short hedge funds include investments in hedge funds that invest in both long and short in U.S. and global common stocks. The net asset value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments. The category also includes a direct investment in partnerships that invest long and short in global real estate equity. The net asset value of this investment has been estimated by the ownership interest in the partnership. The direct investment fund provides full disclosure of the underlying holdings and ownership interest, which allows the University to verify the account balances.

Multi-strategy funds include investments in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. The value of the investments in this category has been estimated using the net value per share of the investments.

Fixed-income arbitrage is an investment strategy which consists of the discovery and exploitation of inefficiencies in the pricing of bonds. Most arbitrageurs who employ this strategy trade globally. The value of the investments in this category has been estimated using the net value per share of the investments. The direct investment fund provides full disclosure of the underlying holdings and ownership interest, which allows the University to verify the account balances.

Private equity partnerships consist of equity securities in operating companies that are not publicly traded on a stock exchange. This category includes various investments as part of a strategy to diversify risk and reduce volatility. Investments in private equity most often involve either an investment of capital into an operating company or the acquisition of an operating company. Investments in this category are intended to be illiquid for the duration of the respective partnership. Partnership duration periods range from 7 to 13 years.

(5) Endowments and Endowment Income

(a) Interpretation of Relevant Law Governing Endowments

The State of Wisconsin enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 20, 2009. The University adopted the related guidance included in ASC Topic 958, *Not-for-Profit Entities*, as of July 1, 2009. This law provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the University to spend from an endowment fund without regard to the book value of the corpus. The University has interpreted 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. The enactment of this law resulted in the University reclassifying investment returns in excess of spending authority requirements of $21,832 from unrestricted net assets to temporarily restricted net assets, based on the investment reporting for the period closest to the August 4, 2009 effective date. This adjustment is recorded as an Endowment net asset reclassification based on change in law on the statement of activities.

From time to time, the value of assets associated with a permanently restricted fund may fall below the required level. Deficiencies of this nature are reported in the unrestricted net assets totaled

$19,142 and $27,955 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and from appropriations to certain programs. Subsequent gains that restore the market value of such funds to the required will be classified as unrestricted net assets.

UPMIFA also impacts the adoption of FASB guidance, which is included in ASC Topic 958, *Not-for-Profit Entities*, which provides direction on the net asset classification of donor-restricted endowment funds for not-for-profit organizations. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those funds are appropriated for expenditure. The amounts appropriated for expenditure are based on the University's endowment spending policy. The spending is approved by the Board through the University's annual budget approval process.

(b) Endowment Spending Policy

The University has established a spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. The 2010 endowment spending rate is calculated as a flat amount equal to the fiscal 2009 allocation increased by 3% plus an allocation of 5% of new gifts received. Annually, University administration determines an inflation adjustment not to exceed 3%. A secondary risk control mechanism is that the annual spendable amount must remain within a range of 4%– 6% of market value. This constraint helps ensure that a meaningful amount of financial support is being provided while protecting the intergenerational equity of future constituents. The difference between the actual total return and return designated for current operations is classified as a nonoperating income or expense in the statements of activities.

(c) Endowment Investment Policy

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as quasi endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results in excess of various indices chosen by the University to measure investment performance while assuming a commensurate level of risk. The University expects its endowment funds, over time, to provide an average rate of return ranging approximately between 8% to 9% annually. Actual returns in any given year may vary from this target. 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 places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(Dollars in thousands)

The following represents the endowment net assets composition by type of fund as of June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(19,142)	27,510	272,591	280,959
Quasi/board-designated endowment funds		77,228	—	—	77,228
Total funds	$	58,086	27,510	272,591	358,187

The following represents the changes in endowment net assets for the year ended June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	62,207	—	256,409	318,616
Investment return:					
Investment loss		—	—	(170)	(170)
Endowment income used for spending policy		4,208	10,268	161	14,637
Net realized and unrealized gains		16,620	5,678	1,233	23,531
Total investment return		20,828	15,946	1,224	37,998
Appropriation of endowment assets for expenditure		(4,208)	(10,268)	—	(14,476)
Net asset reclassification based on change in law		(21,832)	21,832	—	—
Contributions		1,091	—	14,958	16,049
Endowment net assets, end of year	$	58,086	27,510	272,591	358,187

The following represents endowment net assets composition by type of fund as of June 30, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	—	256,409	256,409
Quasi/board-designated endowment funds		62,207	—	—	62,207
Total funds	$	62,207	—	256,409	318,616

(Dollars in thousands)

The following represents the changes in endowment net assets for the year ended June 30, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	144,542	—	245,678	390,220
Investment return:					
Investment loss		—	—	(216)	(216)
Endowment income used for spending policy		4,003	9,189	240	13,432
Net realized and unrealized gains (losses)		(85,429)	—	1,351	(84,078)
Total investment return		(81,426)	9,189	1,375	(70,862)
Appropriation of endowment assets for expenditure		(4,003)	(9,189)	—	(13,192)
Contributions		3,094	—	9,356	12,450
Endowment net assets, end of year	$	62,207	—	256,409	318,616

(6) Irrevocable Split-Interest Agreements

The University's split-interest agreements with donors consist of charitable gift annuities, pooled income funds, and charitable remainder trusts for which the University may or may not serve as trustee. Assets are invested and payments are made to beneficiaries in accordance with the respective agreements.

For those agreements where the University is the trustee, contribution revenue is recognized at the date the agreement is established, net of the liability that is recorded for the present value of the estimated future payments to be made to the beneficiaries. The present value of payments to beneficiaries is calculated using discount rates that range from 3.2% to 6.0%. Gains or losses resulting from changes in actuarial assumptions are recorded as changes in the respective net asset class in the statements of activities as incurred. Investments and other assets maintained in trusteeship by the University totaled $10,403 and $10,450 at June 30, 2010 and 2009, respectively.

The University is the sole beneficiary of two trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the University. In both instances, the University is to receive distributions from the trusts. One of the trusts provides for the distribution of only its annual income and is accounted for as a permanently restricted asset. The fair value of this trust was $1,201 and $1,107 as of June 30, 2010 and 2009, respectively. The other trust permits the trustee to determine the amount of distribution and allows for the payout of both income and principal. This trust, valued at fair value, is being accounted for as a temporarily restricted asset and totaled $13,076 and $12,017 as of June 30, 2010 and 2009, respectively.

(Dollars in thousands)

For those agreements where the University does not serve as trustee, but is designated as an irrevocable beneficiary of the trust, temporarily or permanently restricted funds held in trust and revenue are recognized for the present value of the estimated future benefits due to the University over the life of the trust and when the trust is distributed. The present value calculation of the trust considers both the contribution revenue discount rate and, if applicable, the estimated life expectancy of the trust originator.

Irrevocable trusts for which the University is not the trustee totaled $24,221 and $24,112 at June 30, 2010 and 2009, respectively.

(7) Contributions Receivable

Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate risk-free rate of return ranging from 0.57% to 4.12% on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

As of June 30, 2010 and 2009, the contributions receivable are due as follows:

		2010	2009
Less than one year	$	8,744	10,138
One to five years		61,259	62,528
Over five years		43,467	45,435
		113,470	118,101
Less:			
Unamortized discount		(29,573)	(32,115)
Allowance for uncollectible accounts		(2,399)	(2,304)
Total contributions receivable	$	81,498	83,682

The University has received certain conditional promises to give that are in the form of revocable trusts and bequests, which are not included in the financial statements. As of June 30, 2010 and 2009, the fair value of these conditional promises is approximately $27,650 and $40,250, respectively.

(Continued)

(Dollars in thousands)

(8) Notes and Bonds Payable

As of June 30, 2010 and 2009, notes and bonds payable consisted of the following:

		2010	2009
Capitalized lease, payable with variable interest rate, maturing through 2012	$	597	1,111
RACM, Series 2002, payable with fixed interest rates ranging from 2.90% to 4.35%, maturing through 2014		12,390	13,545
Revenue Bonds, Series 2002A, payable with fixed interest rates ranging from 3.75% to 4.85%, maturing through 2032		18,010	18,450
Revenue Bonds, Series 1998, payable with fixed interest rates ranging from 4.75% to 5.25%, maturing through 2028		56,686	60,779
4.67% note payable with annual payments through September 15, 2011		186	273
Revenue Bonds, Series 2007A, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2023		25,369	26,672
Revenue Bonds, Series 2007B, payable with fixed interest rates ranging from 4.50% to 5.00%, maturing through 2032		27,619	27,625
Revenue Bonds, Series 2008B1, payable with variable interest rates ranging from 0.87% to 1.06%, maturing through 2033		—	31,795
Revenue Bonds, Series 2008B2, payable with variable interest rates ranging from 0.83%% to 1.09%, maturing through 2033		—	18,765
Revenue Bonds, Series 2008B3, payable with variable interest rates ranging from 1.41% to 1.70%, maturing through 2033		—	33,100
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033		32,278	—
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033		18,714	—
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033		33,603	—
Total notes and bonds payable	$	225,452	232,115

The University has entered into noncancelable lease agreements for copiers and vehicles. These agreements are accounted for as capital leases (note 15).

In December 2009, the variable rate Revenue Bonds Series 2008 B1, 2008 B2 and 2008 B3 were converted to fixed rate interest debt and reoffered.

In October 2008, the Wisconsin Health and Educational Facilities Authority (WHEFA) issued $31,795 of its Revenue Bonds, Series 2008 B1. The proceeds from the sale of these bonds were loaned to the University and used to refund the Series 2002 B1 Revenue Bonds and to fund the Law School construction and Residence Hall Renovations.

In October 2008, WHEFA issued $18,765 of its Revenue Bonds, Series 2008 B2. The proceeds from the sale of these bonds were loaned to the University and used to fund the Law School construction and Residence Hall Renovations.

In November 2008, WHEFA issued $33,100 of its Revenue Bonds, Series 2008 B3. The proceeds from the sale of these bonds were loaned to the University and used to fund the Law School construction and Residence Hall Renovations.

In October 2007, WHEFA issued $27,500 of its Revenue Bonds, Series 2007A and $27,500 of its Revenue Bonds, Series 2007B. The proceeds from the sale of these bonds were loaned to the University to support property acquisitions, residence hall sprinklers systems, construction of the student services building and other building renovations.

In November 2002, the Redevelopment Authority of the City of Milwaukee (RACM) issued $19,920 Development Refunding Revenue Bonds, Series 2002. The proceeds from the sale of these bonds were loaned to the University and used to advance refund the outstanding Redevelopment Authority of the City of Milwaukee, Wisconsin Development Revenue Bonds, Series 1993A (Campus Town Project).

In October 2002, WHEFA issued $20,795 of its Revenue Bonds, Series 2002A. The proceeds from the sale of these bonds were loaned to the University to support construction costs associated with Campus Town Phase V Apartments and a multilevel parking structure.

In November 1998, WHEFA issued $93,055 of its Revenue Bonds, Series 1998. The proceeds from the sale of these bonds were loaned to the University and used to partially defease the Series 1992 Revenue Bonds, fully defease the Series 1994 Revenue Bonds, and to fund various construction and renovation projects.

All of the revenue bonds are unsecured. The principal and interest on the revenue bonds are insured pursuant to a municipal bond insurance policy.

The notes and bonds payable are subject to various covenants. Management confirms the University is in compliance with all covenants as of and for the years ended June 30, 2010 and 2009.

In connection with defeasing the various revenue bonds described above, the University was legally released as the obligor on the bonds. Accordingly, the transactions were accounted for as an extinguishment of debt.

(Dollars in thousands)

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2010 are as follows:

2011	$	10,080
2012		10,227
2013		7,576
2014		7,856
2015		7,676
Thereafter		182,037
Total notes and bonds payable	$	225,452

As of June 30, 2010, the University has two secured letters of credit with banks under which it may borrow up to $2,658. There were no borrowings outstanding under these letters of credit as of June 30, 2010 and 2009.

Cash utilized for the payment of interest on notes and bonds payable was $8,421 and $8,319 during fiscal years 2010 and 2009, respectively.

(9) Retirement Plan

All eligible full-time personnel may elect to participate in a defined contribution individual annuity plan. Under the provisions of the plan, participants are required to contribute 5% of their annual wages to the plan. The University has neither administrative responsibilities nor any financial liabilities under this plan except to make contributions, currently limited to 8% of the annual wages of participants, up to defined limits. In addition, voluntary contributions by participants may be made subject to Internal Revenue Service limitations. Expenses for contributions to this plan totaled $8,842 and $8,279 in fiscal years 2010 and 2009, respectively.

(10) Self-Funded Health and Dental Benefit Plans

The University has self-funded benefit plans covering all active and certain retired employees' health and dental costs. Under the plans, the University's losses are limited, through the use of excess loss insurance, to $150 per claim. Claims paid under the plans for fiscal years 2010 and 2009 totaled $24,785 and $23,257, respectively. The University has also contracted with a third party administrator to provide administrative services for the plans. Accrued liabilities include an estimate of the University's liability for claims incurred but not paid through June 30, 2010 and 2009.

(11) Postretirement Benefits

The University provides retired employees access to certain health care and life insurance benefits. All University employees become eligible to access these benefits when their years of service plus age equal 70. Qualified retired employees under the age of 65 are eligible to participate in the University's health care plan. Except for a small number of special cases, retirees are expected to pay the full cost of their premiums, based on the claims experience associated with that defined group of retired employees. The University also pays group life insurance premiums for active or future retired employees hired prior to February 1, 1982 that provide for limited death benefits. The premiums paid are based on the group

(Continued)

(Dollars in thousands)

community rate associated with death claims filed for the entire population of employees and retirees participating in the program.

Summary information regarding the accounting for both plans for the years ended June 30, 2010 and 2009 is presented in the following:

		2010	**2009**
Change in benefit obligation:			
Benefit obligation, beginning of year	$	3,407	3,277
Service cost		3	4
Interest cost		223	223
Actuarial (gain) loss		551	(25)
Benefits paid		(146)	(72)
Benefit obligation, end of year	$	4,038	3,407
Change in plan assets:			
Fair value of plan assets, beginning of year	$	—	—
Plan participant contributions		146	71
Actual benefits paid		(146)	(71)
Fair value of plan assets, end of year	$	—	—
Change in postretirement benefits:			
Change in postretirement benefits other than net periodic benefit cost	$	—	—
Prior service credits		(182)	(254)
Net gain		(46)	(652)
Change in postretirement benefits	$	(228)	(906)

(Dollars in thousands)

		2010	2009
Measurement date		June 30	June 30
Weighted average assumptions for liability:			
Discount rate		5.25%	6.75%
Salary increase		3.50	3.50
Assumed health care cost trend rates:			
Current year rate		8.50%	9.00%
Ultimate rate		5.50	5.50
Year rate reaches ultimate rate		2016	2016
Components of net periodic benefit cost:			
Service cost	$	3	4
Interest cost		223	223
Amortization of:			
Unrecognized prior service cost		(73)	(73)
Unrecognized actuarial loss		(55)	(68)
Net periodic cost	$	98	86

The projected postretirement benefit payments for the fiscal years subsequent to June 30, 2010 are as follows:

2011	$	215
2012		223
2013		232
2014		240
2015		245
2016 to 2020		1,313

(12) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2010 and 2009:

		2010	2009
Physical assets	$	123,133	95,420
General operations and education		62,008	33,439
Pledge receivable, net		53,324	56,234
Scholarships		15,464	16,316
Life income and annuity funds		14,228	14,611
Total temporarily restricted net assets	$	268,157	216,020

(Dollars in thousands)

(13) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30, 2010 and 2009, the income from which is expendable to support:

		2010	2009
Scholarships	$	123,950	115,281
General operations and education		104,842	98,577
Pledge receivable, net		28,519	27,780
Life income and annuity funds		15,280	14,771
Total permanently restricted net assets	$	272,591	256,409

(14) Related Parties

The University contracts with certain related parties for the purchase of goods, performance of construction activities, and provisions of other services. Construction activities represent the majority of related party transactions. Generally, members of the University's Board serve in a management role for a related party or an affiliate of the related party. During fiscal years 2010 and 2009, the University had related party transactions approximating $54,429 and $41,736, respectively.

(15) Commitments and Contingencies

The University is involved in various litigation arising in the normal course of operations. On the basis of information presently available and the advice of legal counsel, management is of the opinion that any liability, to the extent not provided for through reserves or otherwise, for pending litigation is not expected to be material in relation to the University's financial position or activities.

As of June 30, 2010, the University has outstanding commitments for the following construction projects:

Discovery Learning Complex	$	25,265
New law school building		12,302
Various renovation projects		2,516
Total commitments	$	40,083

(Dollars in thousands)

The University leases athletic and other facilities and equipment under noncancelable arrangements that are accounted for as operating leases. Total future commitments under these leases as of June 30, 2010 are as follows:

2011	$	333
2012		283
2013		282
2014		138
2015		140
Thereafter		346
Total future commitments	$	1,522

Total rent expense for the University was $1,233 and $1,477 during the fiscal years ended June 30, 2010 and 2009, respectively.

The University has noncancelable lease agreements for copiers. These leases are accounted for as capital leases and included in the statements of financial position under property, buildings, and equipment. The terms of the leases require the University to make annual payments of $432. During fiscal years 2010 and 2009, the total cost of the copiers and vehicles capitalized under these lease contracts is $1,490 and $1,853 and the accumulated depreciation totaled $929 and $783, respectively.

The future minimum lease payment commitments under lease as of June 30, 2010 are as follows:

2011	$	432
2012		48
Total future commitments		480
Less amount representing interest		(31)
Present value of future minimum lease payments	$	449

(16) Tuition Discounts

Tuition discounts, as reported in the statements of activities as a reduction of student tuition and fees, were funded in fiscal years 2010 and 2009 from the following revenue sources:

		2010	2009
Institutional revenue sources	$	66,325	62,512
Gifts, grants, and endowment earnings		17,530	13,804
Total tuition discount	$	83,855	76,316

(Dollars in thousands)

(17) Natural Expenses

The University's classification of unrestricted expenses in the statements of activities is combined by natural expenses as of June 30, 2010 and 2009 as follows:

		2010	2009
Salaries and fringe benefits	$	217,966	208,731
Supplies		16,431	16,773
Telephone		865	824
Professional fees		7,691	7,854
Administrative expenses		10,667	10,948
Meal plans and promotional items		11,002	10,489
Repairs and maintenance		10,143	11,925
Travel		9,021	9,788
Advertising and public relations		1,951	2,070
Utilities		8,481	8,315
Insurance (property, liability, etc.)		3,038	2,605
Interest		6,364	6,672
Depreciation		26,295	30,045
Miscellaneous expense		965	520
Total operating expenses	$	330,880	327,559

(18) Research and Grant Costs

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on negotiated predetermined rates. Research and grant costs reported for fiscal years 2010 and 2009 comprised of the following:

		2010	2009
Sponsored research	$	12,144	8,949
Teaching and training		7,334	7,551
Development and others		2,484	2,933
Total research and grants	$	21,962	19,433

(19) Subsequent Events

The University evaluated events after the statement of financial position date of June 30, 2010 through September 9, 2010 which was the date the financial statements were issued. No significant subsequent events were noted.