Southwestern University

Financial Statements as of and for the Years Ended June 30, 2010 and 2009 and Independent Auditors' Report

SOUTHWESTERN UNIVERSITY

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Deloitte.

Deloitte & Touche LLP
400 West 15th Street
Suite 1600
Austin, TX 78701-1648
USA

Tel: +1 512 691 2330
Fax: +1 512 708 1035
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Southwestern University
Georgetown, Texas

We have audited the accompanying statements of financial position of Southwestern 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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. An audit includes consideration of internal control over financial reporting as a basis for designing 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the University as of June 30, 2010 and 2009, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

December 3, 2010

SOUTHWESTERN UNIVERSITY

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,614,474	$ 41,001,004
Receivables:		
Student accounts receivable — net	72,011	63,272
Unconditional promises receivable — current portion	3,503,684	4,052,230
Investment transactions	93,281	95,580
Other	583,013	686,965
Prepayments and other current assets	1,173,059	1,123,634
Total current assets	42,039,522	47,022,685
UNCONDITIONAL PROMISES RECEIVABLE — Long-term portion	3,402,938	4,716,941
INVESTMENTS	212,483,723	196,478,966
BENEFICIAL INTERESTS IN FUNDS HELD BY OTHERS	3,897,553	3,569,227
INVESTMENT IN PLANT — Net	93,692,752	92,358,068
STUDENT LOANS RECEIVABLE — Net	4,771,529	4,252,595
OTHER ASSETS	207,568	251,489
TOTAL	$ 360,495,585	$ 348,649,971
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable — accrued and other liabilities	$ 5,685,609	$ 5,630,736
Notes payable — current portion	1,210,000	1,150,000
Accrued post retirement benefits — current portion	909,994	792,439
Student deposits and advance payments	1,328,239	1,316,994
Total current liabilities	9,133,842	8,890,169
NOTES PAYABLE — Long-term portion	27,185,217	28,423,973
ACCRUED POSTRETIREMENT BENEFITS	29,409,381	21,579,238
REFUNDABLE ADVANCES	3,258,416	3,277,220
DEFERRED COMPENSATION AND OTHER LONG-TERM LIABILITIES	82,400	88,900
Total liabilities	69,069,256	62,259,500
NET ASSETS:		
Unrestricted	77,351,006	78,992,140
Temporarily restricted	143,148,980	140,275,176
Permanently restricted	70,926,343	67,123,155
Total net assets	291,426,329	286,390,471
TOTAL	$ 360,495,585	$ 348,649,971

See notes to financial statements.

SOUTHWESTERN UNIVERSITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Tuition and fees	$ 38,622,081	$ -	$ -	$ 38,622,081
Less scholarships and grants	15,998,543	-	-	15,998,543
Net tuition and fees	22,623,538	-	-	22,623,538
Private gifts and grants	3,768,534	2,582,020	1,599,435	7,949,989
Government grants	254,457	886,329	-	1,140,786
Investment income	212,365	25,213,668	-	25,426,033
Change in value of split-interest agreements	-	277,422	-	277,422
Other income	1,452,662	22,588	-	1,475,250
Auxiliary enterprises	8,910,496	-	-	8,910,496
Total revenues	37,222,052	28,982,027	1,599,435	67,803,514
NET ASSETS RELEASED FROM RESTRICTIONS	26,108,223	(26,108,223)	-	-
Total net revenues	63,330,275	2,873,804	1,599,435	67,803,514
EXPENSES:				
Instructional services	25,989,714	-	-	25,989,714
Student services	9,147,174	-	-	9,147,174
Auxiliary services	8,292,462	-	-	8,292,462
Institutional support	15,457,884	-	-	15,457,884
Total expenses	58,887,234	-	-	58,887,234
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	4,443,041	2,873,804	1,599,435	8,916,280
GAIN DUE TO CHANGE IN NATURE OF PROMISES RECEIVABLE	-	-	2,203,753	2,203,753
POST-RETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(6,084,175)	-	-	(6,084,175)
CHANGE IN NET ASSETS	(1,641,134)	2,873,804	3,803,188	5,035,858
NET ASSETS — Beginning of year	78,992,140	140,275,176	67,123,155	286,390,471
NET ASSETS — End of year	$ 77,351,006	$ 143,148,980	$ 70,926,343	$ 291,426,329

See notes to financial statements.

SOUTHWESTERN UNIVERSITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Tuition and fees	$ 35,150,452	$ -	$ -	$ 35,150,452
Less scholarships and grants	13,255,410	-	-	13,255,410
Net tuition and fees	21,895,042	-	-	21,895,042
Private gifts and grants	6,901,266	2,675,987	829,606	10,406,859
Government grants	240,733	360,583	-	601,316
Investment income (loss)	250,768	(41,234,464)	-	(40,983,696)
Change in value of split-interest agreements	-	(708,968)	-	(708,968)
Other income	973,730	26,526	-	1,000,256
Auxiliary enterprises	8,483,881	-	-	8,483,881
Total revenues	38,745,420	(38,880,336)	829,606	694,690
NET ASSETS RELEASED FROM RESTRICTIONS	8,135,991	(8,135,991)	-	-
Total net revenues	46,881,411	(47,016,327)	829,606	694,690
EXPENSES:				
Instructional services	23,963,984	-	-	23,963,984
Student services	8,974,059	-	-	8,974,059
Auxiliary services	8,353,833	-	-	8,353,833
Institutional support	13,838,226	-	-	13,838,226
Total expenses	55,130,102	-	-	55,130,102
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(8,248,691)	(47,016,327)	829,606	(54,435,412)
LOSS DUE TO CHANGE IN NATURE OF PROMISES RECEIVABLE	-	-	(2,203,753)	(2,203,753)
POST-RETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(1,526,283)	-	-	(1,526,283)
CHANGE IN NET ASSETS	(9,774,974)	(47,016,327)	(1,374,147)	(58,165,448)
NET ASSETS — Beginning of year	88,767,114	187,291,503	68,497,302	344,555,919
NET ASSETS — End of year	$ 78,992,140	$ 140,275,176	$ 67,123,155	$ 286,390,471

See notes to financial statements.

SOUTHWESTERN UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 5,035,858	$ (58,165,448)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	4,563,951	4,524,254
Amortization of premiums and issuance costs on bonds	(28,757)	(28,757)
Loss on disposal of assets	55,087	4,138
Net (gain) loss on investments	(21,219,906)	47,352,065
Gifts and grants restricted for endowment	(2,539,066)	(749,845)
(Increase) decrease in operating assets:		
Student accounts and loans receivable	(527,673)	(631,530)
Unconditional promises receivable	1,862,549	5,464,619
Investment transactions receivable	2,299	1,338,613
Other receivables	103,952	(280,716)
Prepayments and other assets	(5,504)	(126,080)
Beneficial interest in funds held in trust by others	(328,326)	719,976
Increase (decrease) in operating liabilities:		
Accounts payable, accrued and other liabilities	54,873	(75,674)
Accrued postretirement benefits	7,947,698	2,867,213
Student deposits and advance payments	11,245	(22,846)
Refundable advances	(18,804)	187,944
Deferred compensation and other long-term liabilities	(6,500)	15,500
Net cash (used in) provided by operating activities	(5,037,024)	2,393,426
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(100,266,594)	(249,755,938)
Sales of investments	105,481,743	295,062,392
Purchases of fixed assets	(5,953,721)	(9,389,252)
Net cash (used in) provided by investing activities	(738,572)	35,917,202
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on notes payable	(1,150,000)	(1,110,000)
Gifts and grants restricted for endowment	2,539,066	749,845
Net cash provided by (used in) financing activities	1,389,066	(360,155)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,386,530)	37,950,473
CASH AND CASH EQUIVALENTS — Beginning of year	41,001,004	3,050,531
CASH AND CASH EQUIVALENTS — End of year	$ 36,614,474	$ 41,001,004
SUPPLEMENTAL CASH FLOW INFORMATION — Interest paid	$ 532,398	$ 813,553
SUPPLEMENTAL CASH FLOW INFORMATION — Additions to fixed assets in accrued expenses	$ 487,941	$ 339,354

See notes to financial statements.

1. NATURE OF OPERATIONS

Southwestern University (the "University"), located in Georgetown, Texas, is the oldest chartered institution of higher learning in the state. It traces its roots to the 1840 founding of Rutersville College in the Republic of Texas near La Grange. A nationally recognized, independent, undergraduate liberal arts college affiliated with the United Methodist Church, the University has an enrollment of approximately 1,256 students and a current student-to-faculty ratio of 10.8:1. Students choose from 37 major programs in the University's two academic areas, The Brown College of Arts and Sciences and the Sarofim School of Fine Arts. As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis — The financial statements of the University have been prepared on an accrual basis of accounting.

The three net asset categories as reflected in the accompanying financial statements are as follows:

Unrestricted — Unrestricted net assets are assets that are free of donor-imposed restrictions, including all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. Since this category includes realized and unrealized gains on endowment and other long-term investments, the University's policy is to reinvest a portion of such earnings for future growth.

Temporarily Restricted — Temporarily restricted net assets are assets for which use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. Such uses for temporarily restricted net assets as of June 30, 2010 and 2009, are as follows:

	2010	2009
Scholarships	$ 29,120,437	$ 27,692,956
Professorships and faculty development	34,927,516	33,213,748
Plant	6,501,685	8,038,104
Other	14,318,444	15,601,612
Restricted for use in future periods	58,280,898	55,728,756
Total	$ 143,148,980	$ 140,275,176

Permanently Restricted — Permanently restricted net assets are assets for which use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University.

The corpus of permanently restricted net assets is required to be invested in perpetuity, with the income from such net assets as of June 30, 2010 and 2009, being expendable to support the following:

	2010	2009
Unrestricted	$28,364,829	$28,364,929
Scholarships	24,001,322	20,311,887
Professorships and faculty development	8,845,556	8,843,001
Plant	1,438,523	1,438,523
Other	8,276,113	8,164,815
Total	$70,926,343	$67,123,155

Cash Equivalents — The University considers all highly liquid assets with a maturity of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents held in transition for investment are included in investments.

Investments — Investments in marketable debt and equity securities are stated at fair value. Investments in real estate and other forms of investments are reported at either cost or the fair value at the date the gift was received.

Contributions — All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the University reports the support as unrestricted.

Unconditional promises to give are recorded at the present value of their estimated future cash flows, net of allowances. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the likelihood of not fulfilling the condition is remote.

Investment in Plant — Additions are generally recorded at cost at the date of acquisition or at fair value at the date of donation. Normal replacements of movable plant assets are charged to expense as maintenance.

Depreciation of physical plant and equipment is computed using the straight-line method for all depreciable assets over their estimated useful lives as follows:

Automobiles	5 years
Furniture and equipment	7 years
Grounds improvements	15 years
Library books	25 years
Buildings	40 years

Bond Issuance Costs — In conjunction with the issuance of the Series 2004A, Series 2004B and Series 2006 bonds, the University capitalized $209,330, $203,291, and $53,150, respectively, of deferred financing costs. The University amortizes such costs over the respective lives of the bonds. Such deferred issuance costs are included in other assets at June 30, 2010, net of accumulated amortization totaling $125,598, $121,976, and $10,630, for the Series 2004A, Series 2004B, and Series 2006 bonds, respectively.

Split-Interest Agreements — The University is the income or remainder beneficiary for various perpetual and charitable remainder trusts held by third-party trustees where the trustee has no discretion regarding the beneficiaries' participation in the trust. The University's beneficial interest in these agreements has been valued at the discounted present value of expected future cash flows. The expected future cash flows have been discounted at rates of 5% to 7%, determined at date of donation, based upon the current market value of the trust's assets and other factors stipulated in the agreements. The present value of the expected future cash flows has been reflected as a beneficial interest in funds held in trust by others in the statement of financial position. A contribution is recognized in the year the University becomes aware of the existence of the agreement. Changes from year to year in the net present value of the estimated future cash flows to be received are reported as a change in value of split-interest agreements in the appropriate net asset class according to the trust restrictions.

Scholarships and Grants — The statement of activities presents financial assistance provided to students in the form of institutional scholarships and grants as a reduction to tuition and fees revenues. Scholarship and grants include programs supported by donor-restricted endowments, donor-restricted gifts and grants and programs supported by general operations of the University. The following table presents the amount of scholarship and grant expenses, and the related percentage of tuition and fee revenues supported by donor-restricted and general operation support scholarship and grant expenditures:

	2010		2009	
	Amount	Discount Rate to Tuition	Amount	Discount Rate to Tuition
Scholarships and grants supported by endowments and gifts	$ 3,134,099	8.1 %	$ 3,116,027	8.9 %
Scholarships and grants supported by general operations	12,864,444	33.3 %	10,139,383	28.8 %
Total scholarships and grants	$15,998,543	41.4 %	$13,255,410	37.7 %

Lease Expense — Total lease expense for all operating leases was $10,340 and $11,390 for 2010 and 2009, respectively. Management of the University expects future lease expenses to decline from the current year total.

Allocation of Certain Expenses — The statement of activities presents expenses by functional classification. The University's primary program services are instruction and departmental research. Expenses reported as student services, institutional support and auxiliary services are incurred in support of these primary program services. Depreciation and the cost of operation and maintenance of plant facilities are allocated to functional categories based on building square footage dedicated to that specific function. Interest expense is allocated based on the use of the related borrowings.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. STUDENT ACCOUNTS AND LOANS RECEIVABLE

Student accounts receivable are reported net of allowances for doubtful accounts of $151,918 for 2010 and $113,694 for 2009. Student loans receivable are reported net of allowance for doubtful accounts of $183,007 for 2010 and $148,065 for 2009.

4. UNCONDITIONAL PROMISES RECEIVABLE

Unconditional promises receivable at June 30, 2010 and 2009, consist of the following:

	2010	2009
Restricted for scholarships	$ 1,584,008	$ 2,520,526
Restricted for plant	3,738,267	6,617,572
Restricted for other uses	1,422,120	1,761,514
Restricted for use in future periods	277,064	336,961
	7,021,459	11,236,573
Allowance for uncollectible promises receivable	-	(2,203,753)
Discount	(114,837)	(263,649)
Net unconditional promises receivable	$ 6,906,622	$ 8,769,171

As of June 30, 2010 and 2009, gross amounts due from unconditional promises receivable are as follows:

	2010	2009
Due in less than one year	$ 3,503,685	$ 4,052,230
Due in one to five years	3,517,774	7,184,343
Total	$ 7,021,459	$ 11,236,573

The University uses risk-free rates of 0.8% to 5.3% to discount the anticipated cash flows for unconditional promises receivable.

In fiscal 2009 the University established an allowance of $2,203,753, which represents the estimated change in the quantity or nature of a promise receivable. This allowance was recorded as a decrease to promises receivable and as a reduction to permanently restricted net assets in the Statement of Activities. In fiscal 2010 the University received a $1,352,724 payment on this promise receivable, leaving a balance outstanding of $851,029 as of June 30, 2010. The University considers the likelihood of not receiving the remaining balance receivable to be remote. Accordingly, the University has recognized a gain for the payment received and the remaining balance outstanding as an addition to permanently restricted net assets in the Statement of Activities for fiscal 2010.

5. INVESTMENTS

Investments consist of long-term assets controlled by the University. Investment securities are exposed to various risks such as interest rate, liquidity, market, currency and credit. 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 such changes could materially affect the amounts reported in the statements of financial position.

A summary of investments at June 30, 2010 and 2009 is as follows:

	2010	2009
At fair value:		
Cash equivalents	$ 13,000,000	$ -
Fixed income and co-mingled fixed income funds	39,290,002	42,957,085
Equity, equity mutual funds and co-mingled equity funds	79,720,992	103,240,202
Alternative investments	71,979,577	41,814,728
Total at fair value	203,990,571	188,012,015
At cost or market at date of acquisition:		
Real estate	8,319,818	8,293,965
Other	173,334	172,986
Total at cost or market at date of acquisition	8,493,152	8,466,951
Total investments	$212,483,723	$196,478,966

Investment income earned by the University and its allocation among net asset classifications are as follows:

	2010	2009
Investment income	$ 4,251,996	$ 5,780,127
Net gains (losses) on investments reported at fair value	21,224,842	(47,544,666)
Net realized gains on investments not reported at fair value	-	217,939
Other income	394,579	933,916
Investment expenses netted against income	(445,384)	(371,012)
Total investment income	$25,426,033	$(40,983,696)
Net asset classification of investment income:		
Unrestricted	$ 212,365	$ 250,768
Temporarily restricted	25,213,668	(41,234,464)
Permanently restricted	-	-
Total Investment Income	$25,426,033	$(40,983,696)

Fair Value Measurement — The University measures the fair value of investments using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. The University holds Level 2 inputs investments, which included certain co-mingled equity funds, co-mingled debt funds and most government agency securities, investment-grade corporate bonds, certain mortgage products, less-liquid equities, and state and municipal obligations.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The University holds Level 3 inputs investments, which included certain fixed income funds, private equity and real estate investments, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the University uses one or more valuation techniques for which sufficient and reliable data is available. The degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3, due to the inherent uncertainty of these valuations. Level 3 estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

The inputs used by the University in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the University in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis.

The following table presents the financial instruments carried on the Statement of Financial Position by caption and by level within the valuation hierarchy as of June 30, 2010.

	Assets at Fair Value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents — Money markets	$ 36,323,803	$ -	$ -	$ 36,323,803
Investments carried at fair value:				
Cash equivalents	13,000,000	-	-	13,000,000
Fixed income and co-mingled fixed income funds	-	39,290,002	-	39,290,002
Equity, equity mutual funds and co-mingled equity funds	30,355,409	49,365,583	-	79,720,992
Alternative investments	-	42,194,295	29,785,282	71,979,577
Total investments carried at fair value	43,355,409	130,849,880	29,785,282	203,990,571
Total	$ 79,679,212	$ 130,849,880	$ 29,785,282	$ 240,314,374

The following table includes additional disclosures required by ASC 820 for the fair value measurements of investments valued at net asset value at June 30, 2010.

Category	Level 2 Fair Value	Level 3 Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Co-mingled fixed income funds	$ 37,212,019	$ -	$ -	Monthly	5 days
Co-mingled equity funds	49,280,660	-	-	Monthly	5 days
Marketable alternative strategies	42,194,295	-	-	Monthly	Varies from 5–30 days
Absolute return strategies	-	11,014,329	-	Semi-annually	95 days
Natural resources	-	985,838	4,162,500	No redemption capability until partnership liquidation in November 2023	N/A
Global distressed debt	-	4,866,965	3,696,800	Annually	120 days
International private equity	-	20,678	1,968,000	No redemption capability until partnership liquidation in December 2023	N/A
Venture capital	-	31,560	2,462,500	Limited partnership with no redemption capability until partnership liquidation in August 2024	N/A
Relative value and event driven	-	12,865,912	-	Annually	95 days
	128,686,974	29,785,282	12,289,800		
Fixed Income Mutual Funds	2,077,983	-	-	Daily	N/A
Equity Mutual Funds	84,923	-	-	Daily	N/A
Total	$ 130,849,880	$29,785,282	$12,289,800		

Certain investments valued at net asset value were classified as Level 2 because substantially all of the holdings of each fund are in securities traded in an active market; however, the University's ownership in the co-mingled fund itself is valued at the net asset value of the fund as of June 30. The University believes these investments can be readily liquidated at values approximating fair value as of the balance sheet date.

Certain investments valued at net asset value were classified as Level 3 in the preceding table, including multi-manager funds using long-short and directional equity, distressed debt and private equity strategies.

The following provides additional disclosures required by ASC 820 for alternative investment strategies included in Level 3 and valued at net asset value:

Absolute return strategies. This fund is a marketable alternative fund with an objective to deliver consistently positive returns regardless of the direction of broader markets, using long/short, event-driven and credit/distressed strategies. The University has no remaining commitment to this fund as of June 30, 2010. Fair value of this fund was determined using net asset values.

Natural resources. This limited partnership invests primarily in limited partnerships, which in turn make oil, gas and other natural resources-related investments with the objective of obtaining long-term growth of capital. The partnership is scheduled to terminate in November 2023, unless terminated earlier by the general partner in accordance with the provisions of the partnership agreement. The University's remaining commitment to this fund was $4,162,500 as of June 30, 2010, of which $650,000 is expected to be funded by the University during fiscal 2011. Fair value of this investment was determined using net asset values.

Global distressed debt. This fund invests in restructured debt, stressed debt, distressed debt, "special situation" debt and mezzanine debt instruments and seeks to provide a net internal rate of return in the mid-teens. The University's remaining commitment to this fund was $3,696,800 as of June 30, 2010, of which $800,000 is expected to be funded by the University during fiscal 2011. Fair value of this investment was determined using net asset values.

International private equity. This limited partnership invests in a diversified portfolio of international private capital funds with the objective of generating higher returns than those generally available on the foreign listed securities exchanges over a long-term horizon. The partnership is scheduled to terminate in December 2023, unless terminated earlier by the general partner in accordance with the provisions of the partnership agreement. The University's remaining commitment to this fund was $1,968,000 as of June 30, 2010, of which $120,000 is expected to be funded by the University during fiscal 2011. Fair value of this investment was determined using net asset values.

Venture capital. This limited partnership invests in early-stage, high-growth private companies, principally in the information technology and life sciences/healthcare fields with the objective of earning long-term capital appreciation and total returns in excess of those earned on publicly traded stocks over a long-term horizon. The partnership is scheduled to terminate in August 2024, unless terminated earlier by the general partner in accordance with the provisions of the partnership agreement. The University's additional commitment to this fund was $2,462,500 as of June 30, 2010, of which $112,500 is expected to be funded by the University during fiscal 2011.

Relative value and event driven. This multi-manager fund marketable fund seeks to produce long-term returns that are favorable to equity and credit markets on a risk-adjusted basis. The University has no remaining commitment to this fund as of June 30, 2010.

The following table includes a roll forward for the year ended June 30, 2010 of amounts for financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

	Alternative Investments
Balance — June 30, 2009	$ 23,838,727
Purchases	15,873,444
Sales	(12,528,143)
Net investment income (loss)	(113,873)
Net realized gains	2,715,127
Balance — June 30, 2010	$ 29,785,282

The following table presents the financial instruments carried on the Statement of Financial Position by caption and by level within the valuation hierarchy as of June 30, 2009.

	Assets at Fair Value as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents — Money markets	$ 38,255,678	$ -	$ -	$ 38,255,678
Investments carried at fair value:				
Fixed income and co-mingled fixed income funds	-	42,927,518	-	42,927,518
Equity, equity mutual funds and co-mingled equity funds	27,809,471	70,286,587	-	98,096,058
Alternative investments	-	23,149,712	23,838,727	46,988,439
Total investments carried at fair value	27,809,471	136,363,817	23,838,727	188,012,015
Total	$ 66,065,149	$ 136,363,817	$ 23,838,727	$ 226,267,693

The following table includes a roll forward for the year ended June 30, 2009 of amounts for financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

	Alternative Investments
Balance — June 30, 2008	$ -
Purchases	23,925,900
Sales	-
Net investment income (loss)	386,837
Net realized gains	(474,010)
Balance — June 30, 2009	$ 23,838,727

6. ENDOWMENTS

The University endowment consists of approximately 450 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Adoption and Interpretation of Relevant Law — Effective September 1, 2007, Texas adopted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sets out the rules governing endowment funds held by charitable institutions. The University adopted the provisions of UPMIFA through various resolutions of the Board of Trustees actions in fiscal 2009. Portions of UPMIFA, including the investment management provisions of the Act, were made immediately effective by the University. The University applies the provisions of the Act's prudence standards for appropriation of endowment income for programmatic support effective for fiscal years beginning after June 30, 2009.

The University's Board of Trustees has interpreted the UPMIFA as 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following seven factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The University's investment policies

Endowment Net Asset Composition by Type of Fund As of June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 131,002,403	$ 69,058,213	$ 200,060,616
Board-designated funds functioning as endowment funds	41,722,881	-	-	41,722,881
Total funds	$ 41,722,881	$ 131,002,403	$ 69,058,213	$ 241,783,497

Changes in Endowment Net Assets For the Fiscal Year Ended June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 35,134,987	$ 125,106,412	$ 66,616,012	$ 226,857,411
Investment return:				
Investment income	236,151	3,981,353	-	4,217,504
Net gains (losses)	-	21,073,864	-	21,073,864
Change in value of split interest agreements	-	328,326	-	328,326
Total net investment return	236,151	25,383,543	-	25,619,694
Contributions	10,000	-	2,442,201	2,452,201
Appropriated for expenditure	(14,087,256)	-	-	(14,087,256)
Net assets released from restrictions	19,487,552	(19,487,552)	-	-
Transfers from other funds	941,447	-	-	941,447
Endowment net assets — end of year	$ 41,722,881	$ 131,002,403	$ 69,058,213	$ 241,783,497

Endowment Net Asset Composition by Type of Fund As of June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,390,532)	$ 125,106,412	$ 66,616,012	$ 190,331,892
Board-designated funds functioning as endowment funds	36,525,519	-	-	36,525,519
Total funds	$ 35,134,987	$ 125,106,412	$ 66,616,012	$ 226,857,411

Changes in Endowment Net Assets For the Fiscal Year Ended June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 43,170,118	$ 171,601,927	$ 65,866,167	$ 280,638,212
Investment return:				
Investment income	363,011	5,667,433	-	6,030,444
Net gains (losses)	(663,687)	(46,603,038)	-	(47,266,725)
Change in value of split interest agreements	-	(719,977)	-	(719,977)
Total net investment return	(300,676)	(41,655,582)	-	(41,956,258)
Contributions	10,000	-	749,845	759,845
Appropriated for expenditure	(7,744,455)	(6,323,377)	-	(14,067,832)
Transfers from other funds	-	1,483,444	-	1,483,444
Endowment net assets — end of year	$ 35,134,987	$ 125,106,412	$ 66,616,012	$ 226,857,411

Endowment Funds With Deficiencies — From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor-restriction to retain as a fund of perpetual duration. These deficiencies typically result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. In accordance with GAAP, deficiencies of this nature are reported as a reduction of unrestricted net assets and totaled $821,876 and $1,522,318, as of June 30, 2010 and June 30, 2009, respectively.

Return Objectives and Risk Parameters — 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 over time. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

The University seeks an average total annual return that exceeds the spending/payout rate plus inflation, as measured over 5- and 10-year periods in order to preserve, over time, the principal value of the assets as measured in real, inflation-adjusted terms. The endowment is a long-term pool of funds with an indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, the endowment assets are invested with a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of risk as measured by the standard deviation of annual returns. The University seeks to minimize portfolio risk through use of professional asset management and sufficient portfolio diversification, to smooth volatility and help ensure reasonable consistency of return over time.

Strategies Employed for Achieving Objectives — 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 among both equity and fixed income strategies. As a long-term policy guideline, endowment assets are allocated between equity classes, 70% (with ranges of 60-80%), and fixed income asset class investments, 30% (with ranges of 20-40%). The University's policy statement restricts investment in non-traditional (alternative) asset classes to no more than 50% of the portfolio, and restricts the total amount of illiquid investments to 25% or less of the portfolio. Illiquid is defined by the policy statement to mean "investments that could not be converted to cash in an orderly market over a period of twelve months or in a shorter period of time by accepting a discount of more than 10%".

Spending Policy — The University has adopted a spending formula for determining that part of the total return on endowment funds which can be expended annually. The spending formula determines spendable endowment return as a percentage of the 20-quarter average endowment market value, excluding investments in real estate, as of December 31 preceding the fiscal year. The spending rate was 5.5% for fiscal year 2010 and 5.7% for fiscal 2009. The University plans to reduce the spending rate to 5.3%, 5.15% and 5.0% in fiscal years 2011, 2012 and 2013, respectively. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy, and planned changes to that policy, to allow its endowment to grow at an average rate that equals or exceeds inflation. Spending on endowments with a market value less than $25,000 is retained in the endowment unless distribution is specifically required by the donor.

7. INVESTMENT IN PLANT — NET

At June 30, 2010 and 2009, investment in plant - net consists of the following:

	2010	2009
Land	$ 111,509	$ 111,509
Buildings	129,129,561	118,200,309
Furniture and equipment	32,445,524	31,877,177
Ground improvements	13,842,411	13,842,411
Total property	175,529,005	164,031,406
Less accumulated depreciation	(83,290,906)	(78,748,531)
	92,238,099	85,282,875
Construction in progress	1,454,653	7,075,193
Investment in plant — net	$ 93,692,752	$ 92,358,068

8. NOTES PAYABLE

The University's notes and bonds payable as of June 30, 2010 and 2009, including related premiums of $115,217 and $143,973, respectively, consisted of the following:

	2010	2009
City of Crawford Education Facilities Corporation Higher Education Revenue Refunding Bonds Series 2004A, interest rates ranging from 3% to 5%, semiannual interest payments due, maturing at various dates through 2014	$ 4,715,217	$ 5,768,973
City of Crawford Education Facilities Corporation Higher Education Revenue Refunding Bonds Series 2004B, interest rates ranging from 3% to 5%, monthly interest payments due, maturing in October 2014	19,040,000	19,040,000
City of Riesel Education Facilities Corporation 2006 Note, fixed interest rate of 4.76%, semiannual interest payments due beginning February 2008, maturing in February 2026	4,640,000	4,765,000
Total	$28,395,217	$29,573,973

On July 13, 2004, the University entered into a loan agreement with the Issuer under which the City of Crawford Education Facilities Corporation Higher Education Revenue Refunding Bonds (Southwestern University Project), Series 2004A, dated July 1, 2004, were issued at an aggregate par value of $10,410,000. The Issuer loaned the proceeds from the sale of the 2004A Bonds to the University, evidenced by a promissory note between the University and the Issuer. The bonds were issued for the purpose of refunding the City of Georgetown Higher Education Finance Corporation Higher Education Revenue Bonds, Series 1994, and to pay costs of issuance of the Series 2004A Bonds. The bonds were issued at a premium of $287,757, of which $287,757 was amortized against interest expense during

fiscal years 2010 and 2009. The University contributed $326,260 at closing which, together with the net proceeds of the Series 2004A Bonds, was transferred to The Bank of New York Trust Company, N.A., as trustee under the trust indenture providing for the issuance of the Series 1994 bonds to redeem on August 16, 2004, all of the $10,505,000 outstanding principal amount of the Series 1994 Bonds and related accrued interest. The University will pay interest in arrears on the Series 2004A Bonds on February 15 and August 15 each year. The bonds mature at various dates through February 15, 2014, and bear interest at rates ranging from 4.0% to 5.0% for the various maturities. In fiscal years 2011, 2012, 2013 and 2014 principal payments of, $1,075,000, $1,120,000, $1,180,000 and $1,225,000 respectively, will become due.

On July 13, 2004, the University entered into a loan agreement with the Issuer under which the City of Crawford Education Facilities Corporation Higher Education Revenue Refunding Bonds (Southwestern University Project), Series 2004B, dated July 1, 2004, were issued at an aggregate par value of $20,605,000. The Issuer loaned the proceeds from the sale of the 2004B Bonds to the University, evidenced by a promissory note between the University and the Issuer. The University contributed $9,612 to the bond issue funds at the time of closing. The bonds were issued for the purpose of financing a portion of the renovation cost of the Alma Thomas Fine Arts Center at The Sarofim School of Fine Arts ($2,393,817), refunding the City of Georgetown Higher Education Finance Corporation Higher Education Revenue Bonds, Series 1984 ($17,800,000), and to pay costs of issuance of the Series 2004B Bonds ($194,648). At closing, $18,022,500 was transferred to The Bank of New York Trust Company, N.A., as trustee under the trust indenture providing for the issuance of the Series 1984 bonds, to redeem on August 1, 2004, all of the $17,800,000 outstanding principal amount, plus accrued interest, of the Series 1984 Bonds. Interest is paid in arrears on the first day of each month beginning August 1, 2004. Principal is due and payable on October 1, 2014.

On August 1, 2006, the University entered into a loan agreement whereby Wachovia Bank, National Association (Bank) loaned $5,000,000 to the University through the City of Riesel Education Facilities Corporation (Issuer), a nonprofit education facilities corporation, for the purpose of financing a portion of the construction cost of a new residential apartment complex for students consisting of 32 two-bedroom suites in three residential buildings, as well as an apartment for a residential assistant and related recreational facilities, community facilities, parking and to pay costs of issuance ($53,150). The loan is secured by the unrestricted net assets of the University. The cost of issuance was capitalized and will be amortized over the life of the loan agreement. Principal repayment is due annually beginning February 15, 2008, payable over a 20 year period based on a 25 year amortization schedule, with a balloon payment of $1,815,000 due on February 15, 2026. The loan has a fixed rate of 4.76% with interest to be paid in arrears on February 15 and August 15 each year. In fiscal years 2011, 2012, 2013, 2014 and 2015 and thereafter principal payments of $135,000, $140,000, $145,000, $155,000, $160,000 and $3,905,000 respectively, will become due. Subsequent to June 30, 2010, but prior to the issuance date of the financial statements, the University, the Bank and the Issuer amended the net assets-to-debt ratio of the debt covenant provisions to conform the calculation and related debt covenant requirement to the net asset classifications of Accounting Standards Codification 958-205 Not-For-Profit Entities Presentation of Financial Statements. The University is in compliance with the amended ratio and covenant provisions at June 30, 2010.

9. BENEFIT PLANS

The University has defined contribution retirement plans for eligible faculty members and non-faculty employees. Contributions equal to various percentages of each eligible participant's regular salary are used to purchase individual annuities issued to the participant by Teachers Insurance and Annuity Association and/or College Retirement Equities Fund. Such contributions totaling $2,287,681 and $2,209,325 for fiscal year 2010 and fiscal year 2009, respectively, were expensed. In addition,

supplemental payments totaling $6,137 in fiscal year 2010 and 2009, were made to certain retired employees.

The University has a contributory health and welfare plan (the "Health Plan") that became self-funded beginning January 1, 1999. The University and employee contributions are used to provide various medical benefits to eligible active employees and their dependents. The Health Plan has excess loss insurance that, in general, limits the amount of total claims paid by the University during the current plan year to approximately $4,533,000 and claims paid per employee by the University during a plan year to $125,000. The University recognized expenses related to the Health Plan of $3,651,774 in fiscal year 2010 and $3,592,914 in fiscal year 2009.

The University also provides health care benefits for eligible retired employees through an unfunded defined benefit plan. All active employees as of June 30, 1996, are eligible for benefits under the plan. All employees hired on or after July 1, 1996, are not eligible for retiree medical benefits. All retirees participating in the postretirement medical plan will remain covered. Employees with at least ten years of service can retire with full benefits at age 65. In addition, employees who attain age 55, 56, or 57 with at least ten years of service may choose to enter the early retirement program, which allows retirement with full benefits at age 60, 61, or 62, respectively, assuming continued employment at the University until retirement.

Pursuant to the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification 715-60 *Defined Benefits Plans—Other Post Retirement*, and 715-20 *Defined Benefit Plans—General,* unamortized costs are reflected in the statement of activities as a net change in unrestricted net assets apart from operating expenses. The University amortizes a portion of these costs each year and reclassifies these amounts into net periodic benefit costs. Amounts amortized and the changes in balances of unamortized costs are as follows:

	Beginning Balance of Unamortized Amounts	Amount Amortized into Net Periodic Benefit Costs	Current Year Gains/Losses	Ending Balance of Unamortized Amounts
Net gains/losses	$ 10,748,546	$ (1,100,966)	$ 6,755,424	$ 16,403,004
Prior service costs	(3,096,609)	429,717	-	(2,666,892)
	$ 7,651,937	$ (671,249)	$ 6,755,424	$ 13,736,112

In fiscal year 2011, the University expects to recognize as net periodic benefit approximately $1,100,000 and $430,000 of previously unamortized net gain and net prior service cost, respectively.

The status of the University's accrued postretirement benefit cost at June 30, 2010 and 2009, is as follows:

	2010	2009
Reconciliation of benefit obligation:		
Obligation at beginning of year	$ 22,371,677	$ 19,504,464
Service cost including expenses	517,687	483,947
Interest cost	1,524,225	1,309,336
Actuarial (gain)/loss	6,755,424	1,798,172
Benefit payments and expected expenses	(849,638)	(724,242)
Obligation at end of year	30,319,375	22,371,677
Reconciliation of fair value of plan assets:		
Employer contributions	849,638	724,242
Benefit payments and actual expenses	(849,638)	(724,242)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (30,319,375)	$ (22,371,677)

Amounts recognized in the statements of financial position are as follows:

	2010	2009
Current liabilities	$ (909,994)	$ (792,439)
Noncurrent liabilities	(29,409,381)	(21,579,238)
Total	$ (30,319,375)	$ (22,371,677)

Net periodic postretirement benefit cost recognized during fiscal year 2010 and 2009, is as follows:

	2010	2009
Service cost	$ 517,687	$ 483,947
Interest cost	1,524,225	1,309,336
Amortization of prior actuarial loss	1,100,966	701,606
Amortization of prior service gain from plan amendment	(429,717)	(429,717)
Total	$ 2,713,161	$ 2,065,172

The University used a weighted average discount rate of 5.43% and 6.24% to determine the post retirement benefit obligation at June 30, 2010 and 2009, respectively. An average discount rate of 6.24% and 6.84% was used to determine the net periodic benefit cost for fiscal years 2010 and 2009, respectively.

In determining the net periodic benefit cost the assumed pre-Medicare health care cost trend rate was 9.0% for fiscal year 2010, declining gradually to 5.0% by 2035. The assumed post-Medicare health care cost trend rate was 9.0% for fiscal year 2010, declining gradually to 5.0% by 2035. In determining the post retirement benefit obligation at June 30, 2010, the assumed health care cost trend rate was 7.5% for

2010 declining gradually to 4.7% by 2083. These health care cost trend rate assumptions have a significant effect on the amount of the obligation and periodic cost reported. For example, an increase in the assumed health care cost trend rate by one percentage point in each year would increase the amount of the obligation at June 30, 2010, by $5,519,000 and the aggregate of service cost and interest cost components of net periodic postretirement benefit cost for the year then ended by $368,000. Alternatively, a decrease in the assumed health care cost trend rate by one percentage point in each year would decrease the obligation at June 30, 2010, by $4,426,000 and the aggregate of service cost and interest cost components of net periodic postretirement benefit cost for the year then ended by $295,000.

The University has determined its prescription drug coverage plan is at least actuarially equivalent to the Medicare prescription drug coverage. Accordingly, the estimated value of the prescription drug subsidy is reflected as an actuarial gain and serves to reduce the post retirement benefit obligation and service costs. Components of net periodic benefit costs, including the effect the estimated Medicare prescription drug subsidy, is as follows:

	Subsidy	Subsidy	Subsidy
Service cost	$ 606,483	$ (88,796)	$ 517,687
Interest cost	1,807,458	(283,233)	1,524,225
Amortization of prior service cost	(429,717)		(429,717)
Amortization of net (gain) loss	1,324,316	(223,350)	1,100,966
Total Net Periodic Benefit Cost	$3,308,540	$(595,379)	$2,713,161

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	2010	2009
Net loss (gain)	$ 6,755,424	$1,798,172
Transition obligation (asset)		
Prior service cost (credit)		
Amortization of net loss (gain)	(1,100,966)	(701,606)
Amortization of transition obligation (asset)		
Amortization of prior service cost	429,717	429,717
Total recognized in unrestricted net assets	$ 6,084,175	$1,526,283
Total recognized in net periodic benefit cost and unrestricted net assets	$ 8,797,336	$3,591,455

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid, net of the estimated Medicare prescription drug subsidies expected to be received:

Years Ending June 30	Medical Benefits	Prescription Drug Subsidy	Net
2011	$ 1,082,695	$ (148,321)	$ 934,374
2012	1,199,843	(169,533)	1,030,310
2013	1,268,869	(184,746)	1,084,123
2014	1,340,895	(201,154)	1,139,741
2015	1,450,734	(215,844)	1,234,890
2016–2020	9,139,149	(1,348,602)	7,790,547

The University expects to contribute $935,000 to the plan during fiscal year 2011.

10. LINE OF CREDIT

The University has an unsecured line of credit for $1,500,000 with First Texas Bank, Georgetown, at the bank's prime rate, which expired on June 30, 2010. The University has obtained approval to renew this line of credit for the period of June 30, 2010 through June 30, 2011. The University did not draw on this line of credit in either fiscal year 2010 or 2009.

11. TAX-EXEMPT STATUS

The University claims exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University has been classified as an organization that is not a private foundation, and contributions to it qualify for deduction as charitable contributions. The University files unrelated business income tax and other information returns as required by government authorities. A provision totaling $0 for unrelated business income taxes is included in the accompanying financial statements for the years ended June 30, 2010 and 2009.

Tax positions taken related to the University's tax exempt status, unrelated business activities taxable income and the deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits.

12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies. Considerable judgment is required in developing these estimates, however, and accordingly, no assurance can be given that the estimated values presented herein are indicative of the amounts that would be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

As of June 30, 2010 and 2009, the carrying amounts of the University's assets and liabilities which are considered to be financial instruments approximate their fair value except for student loans receivable (Note 3) and notes payable (Note 8). Based on the nature of the federal loan program and the privately contributed loan funds representing student loans receivable, such financial instruments may not be sold. Accordingly, determining fair value is not practicable. The University's notes payable total $28,395,217 and $29,573,973 and have an estimated fair value of approximately $28,867,911 and $26,040,800 at

June 30, 2010 and 2009, respectively. These amounts were determined using rates currently available to the University for debt with similar terms and maturities.

13. COMMITMENTS

The University has contracts for the construction of infrastructure projects and for other building and classroom improvements. At June 30, 2010, the remaining commitments under these contracts approximated $1,873,914.

14. TRANSACTIONS WITH RELATED PARTIES

Two members of the Board of Trustees of the University also serve as directors of a financial institution where the University has a significant banking relationship. The University has a conflict of interest policy that is regularly updated by all members of the Board of Trustees. The relationships with the financial institution have been consistently reported as a conflict of interest. In all matters related to business decisions at the meetings of the Board of Trustees, these parties refrain from participating in any votes on these matters. The abstentions are reflected in the official minutes of the meetings.

15. SUBSEQUENT EVENTS

The University has evaluated subsequent events through December 3, 2010, the date when financial statements were available to be issued. The University did not identify any subsequent events to be disclosed.

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