

Financial Statements and Report of Independent Certified Public Accountants

Southwestern University

June 30, 2011

Southwestern University

FINANCIAL STATEMENTS

Year ended June 30, 2011

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Report of Independent Certified Public Accountants

Audit • Tax • Advisory
Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
www.GrantThornton.com

The Board of Trustees
Southwestern University

We have audited the accompanying statement of financial position of Southwestern University (the "University") as of June 30, 2011, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the University as of and for the year ended June 30, 2010, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 3, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Southwestern University as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the adjustments described in Note 3 to the financial statements that were applied to restate the 2010 financial statements to correct an error in the University's method of allocating unrealized gains and losses related to endowments to net asset categories and in properly classifying endowments between net asset categories based upon donor intent. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2010 financial statements of the University other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2010 financial statements taken as a whole.

GRANT THORNTON LLP

Dallas, Texas
December 12, 2011

Southwestern University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	2011	2010 restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,550,810	\$ 36,614,474
Receivables:		
Student accounts receivable, net	66,639	72,011
Unconditional promises receivable, net, current portion	3,894,402	3,503,684
Investment income	99,913	93,281
Other	538,642	583,013
Prepays and other current assets	1,138,401	1,173,059
Total current assets	45,288,807	42,039,522
Unconditional promises receivable, net, long-term portion	4,386,244	3,402,938
Investments	235,987,060	212,483,723
Beneficial interests in funds held by others	4,600,549	3,897,553
Investment in plant, net	90,513,986	93,692,752
Student loans receivable, net	4,738,961	4,771,529
Other assets	163,649	207,568
Total	\$385,679,256	\$360,495,585
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable, accrued and other liabilities	\$ 5,009,370	\$ 5,685,609
Notes payable, current portion	1,260,000	1,210,000
Accrued post-retirement benefits, current portion	956,238	909,994
Student deposits and advance payments	1,161,008	1,328,239
Total current liabilities	8,386,616	9,133,842
Notes payable, long-term portion	25,896,460	27,185,217
Accrued post-retirement benefits	28,586,457	29,409,381
Refundable advances	3,369,014	3,258,416
Deferred compensation and other long-term liabilities	76,400	82,400
Total liabilities	66,314,947	69,069,256
Net assets		
Unrestricted	74,365,631	75,326,733
Temporarily restricted	167,023,018	142,199,619
Permanently restricted	77,975,660	73,899,977
Total net assets	319,364,309	291,426,329
Total	\$385,679,256	\$360,495,585

The accompanying notes are an integral part of these consolidated financial statements.

Southwestern University

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Tuition and fees	\$42,729,049	\$ -	\$ -	\$ 42,729,049
Less scholarships and grants	<u>18,934,569</u>	<u>-</u>	<u>-</u>	<u>18,934,569</u>
Net tuition and fees	23,794,480	-	-	23,794,480
Private gifts and grants	3,035,070	5,963,897	2,706,359	11,705,326
Government grants	340,967	682,774	-	1,023,741
Investment income, net	4,303,364	31,726,500	123,222	36,153,086
Change in value of split-interest agreements	-	91,803	630,830	722,633
Other income	1,612,573	20,885	-	1,633,458
Auxiliary enterprises	<u>9,428,654</u>	<u>-</u>	<u>-</u>	<u>9,428,654</u>
Total revenues	42,515,108	38,485,859	3,460,411	84,461,378
Net assets released from restrictions	<u>13,662,460</u>	<u>(13,662,460)</u>	<u>-</u>	<u>-</u>
Total net revenues	56,177,568	24,823,399	3,460,411	84,461,378
Expenses:				
Instructional services	25,551,104	-	-	25,551,104
Student services	8,773,157	-	-	8,773,157
Auxiliary services	8,169,939	-	-	8,169,939
Institutional support	<u>16,993,282</u>	<u>-</u>	<u>-</u>	<u>16,993,282</u>
Total expenses	<u>59,487,482</u>	<u>-</u>	<u>-</u>	<u>59,487,482</u>
Change in net assets from Operating activities	(3,309,914)	24,823,399	3,460,411	24,973,896
Change in donor-imposed restriction, as restated	(615,272)	-	615,272	-
Post-retirement-related changes other than net periodic pension costs	<u>2,964,084</u>	<u>-</u>	<u>-</u>	<u>2,964,084</u>
Change in net assets	(961,102)	24,823,399	4,075,683	27,937,980
Net assets - Beginning of year (as restated)	<u>75,326,733</u>	<u>142,199,619</u>	<u>73,899,977</u>	<u>291,426,329</u>
Net assets - End of year	<u>\$74,365,631</u>	<u>\$167,023,018</u>	<u>\$77,975,660</u>	<u>\$319,364,309</u>

The accompanying notes are an integral part of these consolidated financial statements.

Southwestern University

CONSOLIDATED STATEMENT OF ACTIVITIES - AS RESTATED

For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Tuition and fees	\$38,622,081	\$ -	\$ -	\$ 38,622,081
Less scholarships and grants	<u>15,998,543</u>	<u>-</u>	<u>-</u>	<u>15,998,543</u>
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, net, as restated	3,258,644	22,086,456	80,933	25,426,033
Change in value of split-interest agreements, as restated	-	21,508	255,914	277,422
Other income	1,452,662	22,588	-	1,475,250
Auxiliary enterprises	<u>8,910,496</u>	<u>-</u>	<u>-</u>	<u>8,910,496</u>
Total revenues, as restated	40,268,331	25,598,901	1,936,282	67,803,514
Net assets released from restrictions, as restated	<u>19,170,745</u>	<u>(19,170,745)</u>	<u>-</u>	<u>-</u>
Total net revenues, as restated	<u>59,439,076</u>	<u>6,428,156</u>	<u>1,936,282</u>	<u>67,803,514</u>
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	<u>15,457,884</u>	<u>-</u>	<u>-</u>	<u>15,457,884</u>
Total expenses	<u>58,887,234</u>	<u>-</u>	<u>-</u>	<u>58,887,234</u>
Change in net assets from Operating activities, as restated	551,842	6,428,156	1,936,282	8,916,280
Gain due to change in nature of promises receivable	-	-	2,203,753	2,203,753
Change in donor-imposed restriction, as restated	-	(50,000)	50,000	-
Post-retirement-related changes other than net periodic pension cost	<u>(6,084,175)</u>	<u>-</u>	<u>-</u>	<u>(6,084,175)</u>
Change in net assets, as restated	(5,532,333)	6,378,156	4,190,035	5,035,858
Net assets:				
Beginning of year, as previously stated	78,992,140	140,275,176	67,123,155	286,390,471
Adjustment	<u>1,866,926</u>	<u>(4,453,713)</u>	<u>2,586,787</u>	<u>-</u>
Beginning of year, as restated	<u>80,859,066</u>	<u>135,821,463</u>	<u>69,709,942</u>	<u>286,390,471</u>
End of year, as restated	<u>\$75,326,733</u>	<u>\$142,199,619</u>	<u>\$73,899,977</u>	<u>\$291,426,329</u>

The accompanying notes are an integral part of these consolidated financial statements.

Southwestern University

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 27,937,980	\$ 5,035,858
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,365,118	4,563,951
Amortization of premiums and issuance costs on bonds	(28,757)	(28,757)
Loss on disposal of assets	21,654	55,087
Net gain on investments	(31,661,181)	(21,224,842)
Gifts and grants restricted for endowment	(4,194,264)	(2,539,066)
(Increase) decrease in operating assets:		
Student accounts and loans receivable	37,940	(527,673)
Unconditional promises receivable	(1,374,024)	1,862,549
Investment transactions receivable	(6,632)	2,299
Other receivables	44,371	103,952
Prepayments and other assets	78,577	(5,504)
Beneficial interest in funds held in trust by others	(702,996)	(328,326)
Increase (decrease) in operating liabilities:		
Accounts payable, accrued and other liabilities	(676,239)	54,873
Accrued postretirement benefits	(776,680)	7,947,698
Student deposits and advance payments	(167,231)	11,245
Refundable advances	110,598	(18,804)
Deferred compensation and other long-term liabilities	(6,000)	(6,500)
Net cash used in operating activities	(6,997,766)	(5,041,960)
Cash flows from investing activities:		
Purchases of investments	(141,986,896)	(100,261,658)
Sales of investments	150,144,740	105,481,743
Purchases of fixed assets	(1,208,006)	(5,953,721)
Net cash provided by (used in) investing activities	6,949,838	(733,636)
Cash flows from financing activities:		
Payment on notes payable	(1,210,000)	(1,150,000)
Gifts and grants restricted for endowment	4,194,264	2,539,066
Net cash provided by financing activities	2,984,264	1,389,066
Net increase (decrease) in cash and cash equivalents	2,936,336	(4,386,530)
Cash and cash equivalents - beginning of year	36,614,474	41,001,004
Cash and cash equivalents - end of year	\$ 39,550,810	\$ 36,614,474
Supplemental cash flow information:		
Interest paid	\$ 473,221	\$ 532,398
Additions to fixed assets in accrued expenses	\$ 418,861	\$ 487,941

The accompanying notes are an integral part of these consolidated financial statements.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 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 Rutgersville 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 1,327 students and a current student-to-faculty ratio of 10.8:1. Students choose from 40 major programs in the University’s two academic areas, The Brown College of Arts and Sciences and the Sarofim School of Fine Arts.

The revenues generated by the University consist primarily of tuition and fees paid by students. Many students rely on funds received from federal financial aid programs under Title IV of the Federal Higher Education Act of 1965 (HEA), as amended, to pay for a substantial portion of their tuition. 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 (USDE).

Southwestern Foundation—Southwestern Foundation (the “Foundation”), a Texas non-profit corporation, was founded in 1993. The Foundation is organized and operated to maintain real or personal property and to use and apply the income therefrom and the principal thereof exclusively for charitable, scientific, literary and educational purposes, and in accomplishment of such purposes, the Foundation is administered solely for the benefit and support of Southwestern University. For reporting purposes, the Foundation is consolidated in Southwestern University’s consolidated financial statements. Inter-entity transactions have been eliminated in the consolidated financial statements. Hereinafter the “University” will refer to the consolidated entity including both Southwestern University and Southwestern Foundation.

Tax-Exempt Status—The University claims exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University files unrelated business income tax and other information returns as required by government authorities. There was no unrelated business income taxes for the years ended June 30, 2011 and 2010. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the consolidated financial statements regarding uncertain tax provisions.

Student Financial Assistance Programs—The University participates in various student financial aid programs. These programs are subject to periodic review by the USDE pursuant to the HEA, as amended. In order to continue to participate in Title IV Programs, the University must comply with the standards set forth in the HEA and the regulations promulgated thereunder (the Regulations). Among other things, these Regulations require the University to exercise due diligence in approving and disbursing funds and servicing loans, and to exercise financial responsibility related to maintaining certain financial ratios and requirements, all of which have been met at June 30, 2011.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation - The consolidated financial statements of the University have been prepared on the accrual basis of accounting.

The three net asset categories as reflected in the accompanying consolidated 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, 2011 and 2010, are as follows:

	2011	2010 restated
Scholarships	\$ 34,865,150	\$ 29,187,584
Professorships and faculty development	38,659,790	34,406,077
Plant	12,958,227	6,496,695
Other	13,993,086	14,026,486
Restricted for use in future periods	66,546,765	58,082,777
Total	\$167,023,018	\$142,199,619

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, 2011 and 2010, being expendable to support the following:

	2011	2010 restated
Unrestricted	\$28,365,870	\$28,364,768
Scholarships	29,839,510	26,308,599
Professorships and faculty development	9,567,506	9,480,949
Plant	1,488,758	1,488,758
Other	8,714,016	8,256,903
Total	\$77,975,660	\$73,899,977

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Loans Receivable - The Federal Perkins Loan Program consists primarily of funds advanced to students by the U.S. government. Under the terms of the program, these loans are subject to forgiveness or assignment back to the federal government under certain circumstances. The amount to be forgiven or assigned is based on the occurrence of certain future events that cannot be anticipated.

Investments - Investments with readily determinable fair values are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments in government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date. Investments in real estate and other investments are reported at either cost or the fair value at the date the gift was received.

Investments held in privately managed institutional funds are valued at redemption values that represent the net asset values of units held at year-end in accordance with ASU 2010-12, *Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*, as discussed in Note 7.

Alternative investments consist of the University's investments in hedge funds, private equity, venture capital, real estate, and other alternative investments that are not publicly traded. Participation in these funds is achieved via ownership of shares in limited partnerships and limited liability companies. Some of these alternative investments may entail liquidity risks to the extent that they are difficult to sell or cannot be converted readily to cash at favorable prices. The University's alternative investments are not traded in an active market; however, the net asset value (NAV) of the shares is reported by the fund manager on a monthly or quarterly basis.

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. The University reclassifies to unrestricted net assets contributions recognized as temporarily restricted due to donor-imposed restrictions upon fulfilling the donor's restrictions. Unconditional promises receivable 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.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Bequests in Probate and Conditional Promises Receivable - The University considers unconditional bequests, as declared valid by probate court, to be unconditional promises receivable. Unconditional bequests that are not in probate are considered to be intentions to give and are not recognized in the consolidated financial statements.

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. The University's asset capitalization threshold is \$2,500 for individual asset acquisitions.

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 on a straight-line basis, which approximates effective interest, over the respective lives of the bonds. Such deferred issuance costs are included in other assets at June 30, 2011, net of accumulated amortization totaling \$146,531, \$142,304, and \$13,287, 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 and related contribution revenue is recognized at the fair value at the date of donation. Changes from year to year in the fair value of the University's beneficial interest are reported as a change in value of split-interest agreements in the appropriate net asset class according to the trust restrictions.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Scholarships and Grants - The consolidated statements 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 revenue reduction, and the related percentage of tuition and fee revenues supported by donor-restricted and general operation support scholarship and grant revenue reductions:

	2011		2010	
	Amount	Discount Rate to Tuition	Amount	Discount Rate to Tuition
Scholarships and grants supported by endowments and gifts	\$ 2,829,953	6.6%	\$ 3,134,099	8.1%
Scholarships and grants supported by general operations	<u>16,104,616</u>	<u>37.7%</u>	<u>12,864,444</u>	<u>33.3%</u>
Total scholarships and grants	<u>\$18,934,569</u>	<u>44.3%</u>	<u>\$15,998,543</u>	<u>41.4%</u>

Lease Expense - Total lease expense for all operating leases was \$53,133 and \$14,847 for fiscal years 2011 and 2010, respectively.

Allocation of Certain Expenses - The consolidated statement of activities presents expenses by functional classification. The University's primary program services are instruction and student services. Expenses reported as institutional support and auxiliary services are incurred in support of these primary program services. Depreciation, interest expense 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.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results could differ from those estimates.

Reclassification - Certain prior year balance have been reclassified to conform to current year presentation.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 3 - RESTATEMENT

Management has determined that the University's previously issued financial statements for June 30, 2010 and for the year then ended, contain misstatements with respect to the classification of net assets. Accounting for certain endowment contributions received with donor-imposed perpetual restrictions on the corpus were erroneously recognized in unrestricted net assets in previous years. In addition, income allocations in previous years for certain endowment funds and split-interest agreements were not properly reflected in the appropriate net asset classifications according to donor-imposed restrictions. Therefore, the University recorded an adjustment to the beginning of year net assets for fiscal year 2010 to correct these errors. Additionally, amounts previously reported in the consolidated statement of activities for fiscal 2010 were corrected. The following is a summary of the adjustments to the University's previously issued financial statements as of June 30, 2010.

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Statement of Activities for the Year ended June 30, 2010:				
Net assets at beginning of year, as previously reported	\$78,992,140	\$140,275,176	\$67,123,155	\$286,390,471
Corrections:				
Reclassification of permanently restricted endowment gifts	(2,293,490)	(720,436)	3,013,926	-
Reclassification of split-interest agreements	618,421	(191,282)	(427,139)	-
Allocation of net loss on investments	<u>3,541,995</u>	<u>(3,541,995)</u>	<u>-</u>	<u>-</u>
Net assets at beginning of year, as restated	<u>\$80,859,066</u>	<u>\$135,821,463</u>	<u>\$69,709,942</u>	<u>\$286,390,471</u>
Investment income, as originally reported	\$ 212,365	\$ 25,213,668	\$ -	\$ 25,426,033
Corrections:				
Net investment income related to reclassified gifts and split-interest agreements	(248,655)	167,722	80,933	-
Reclassification of investment income on funds functioning as endowments	<u>3,294,934</u>	<u>(3,294,934)</u>	<u>-</u>	<u>-</u>
Investment income, as restated	<u>\$ 3,258,644</u>	<u>\$ 22,086,456</u>	<u>\$ 80,933</u>	<u>\$ 25,426,033</u>
Change in value of split-interest agreements, as originally reported	\$ -	\$ 277,422	\$ -	\$ 277,422
Correction: Reclassification of net investment income on split-interest agreements	<u>-</u>	<u>(255,914)</u>	<u>255,914</u>	<u>-</u>
Change in value of split-interest agreements, as restated	<u>\$ -</u>	<u>\$ 21,508</u>	<u>\$ 255,914</u>	<u>\$ 277,422</u>
Change in donor-imposed restriction on prior year contribution, as originally reported	\$ -	\$ -	\$ -	\$ -
Correction: Change in donor-imposed restriction subsequent to receipt of gift	<u>-</u>	<u>(50,000)</u>	<u>50,000</u>	<u>-</u>
Change in donor-imposed restriction on prior year contribution, as restated	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 50,000</u>	<u>\$ -</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 3 - RESTATEMENT- Continued

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets released from restrictions, as originally reported	\$26,108,223	\$ (26,108,223)	\$ -	\$ -
Corrections:				
Effect of gift and related net investment income reclassification	(3,642,544)	3,642,544	-	-
Effect of reclassification of net investment income on funds that function as endowment	<u>(3,294,934)</u>	<u>3,294,934</u>	-	-
Net assets released from restrictions, as restated	<u>\$19,170,745</u>	<u>\$ (19,170,745)</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Statement of Financial Position as of June 30, 2010 and Statement of Activities for the Year Ended June 30, 2010:				
Net assets at June 30, 2010, as previously reported	\$77,351,006	\$143,148,980	\$70,926,343	\$291,426,329
Cumulative effect of adjustments	1,866,926	(4,453,713)	2,586,787	-
Fiscal 2010 adjustments	<u>(3,891,199)</u>	<u>3,504,352</u>	<u>386,847</u>	-
Net assets at June 30, 2010, as restated	<u>\$75,326,733</u>	<u>\$142,199,619</u>	<u>\$73,899,977</u>	<u>\$291,426,329</u>

NOTE 4 - STUDENT ACCOUNTS AND LOANS RECEIVABLE

Student accounts receivable are reported net of allowances for doubtful accounts of \$240,617 and \$151,918 for the years ended June 30, 2011 and 2010, respectively. Allowance for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence collectability of the balance outstanding. The allowance percentage ranges from 10% for accounts past due 30 days to 100% for accounts past due 181 or more days but still undergoing collection procedures. Balances are written off only when they are deemed permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program.

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2011 and 2010, student loans represent 1.2% and 1.3% of total assets, respectively.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 4 - STUDENT ACCOUNTS AND LOANS RECEIVABLE - Continued

At June 30, student loans consisted of the following:

	2011	2010
Federal government programs	\$4,011,245	\$3,963,360
Institutional programs	<u>1,061,546</u>	<u>991,176</u>
	<u>5,072,791</u>	<u>4,954,536</u>
Less allowance for doubtful accounts:		
Beginning of year	(183,007)	(148,064)
Increases	<u>(150,823)</u>	<u>(34,943)</u>
End of year	<u>(333,830)</u>	<u>(183,007)</u>
Student loans receivable, net	<u>\$4,738,961</u>	<u>\$4,771,529</u>

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government and net accumulations in the revolving loan fund were \$3,165,914 and \$3,135,688 at June 30, 2011 and 2010, respectively, and are ultimately refundable to the government and are classified as refundable advances in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2011 and 2010, the following amounts were past due under the student loan programs:

June 30,	Currently due	31-90 days past due	90+ days past due	Total past due
2011	\$1,624,731	\$307,816	\$1,010,280	\$2,942,827
2010	1,430,433	213,044	765,171	2,408,648

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 5 – UNCONDITIONAL PROMISES RECEIVABLE

Unconditional promises receivable at June 30, 2011 and 2010, consist of the following:

	2011	2010
Restricted for scholarships	\$ 708,664	\$1,584,008
Restricted for plant	6,067,635	3,738,267
Restricted for other uses	1,332,606	1,422,120
Restricted for use in future periods	<u>229,114</u>	<u>277,064</u>
	8,338,019	7,021,459
Allowance for uncollectible promises receivable	-	-
Discount	<u>(57,373)</u>	<u>(114,837)</u>
Unconditional promises receivable, net	<u>\$8,280,646</u>	<u>\$6,906,622</u>

As of June 30, 2011 and 2010, the expected gross amounts to be received from unconditional promises receivable are as follows:

	2011	2010
Less than one year	\$3,894,402	\$3,503,684
One to five years	4,435,617	3,517,775
More than five years	<u>8,000</u>	<u>-</u>
Total unconditional promises receivable	<u>\$8,338,019</u>	<u>\$7,021,459</u>

The University uses discount rates commensurate with the risks involved to discount anticipated cash flows for unconditional promises receivable. The rates used to discount the anticipated cash flows ranged from 0.6% to 5.3%.

At June 30, 2011, the University held a conditional promise receivable of \$8,742,000 which is not recognized in the consolidated financial statements because, in the judgment of management, the likelihood of meeting the condition is remote. The conditional promise receivable is scheduled to be received in annual installments through fiscal 2019, but is terminated upon the death of the promisor.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 6 - 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 consolidated statements of financial position.

A summary of investments at June 30, 2011 and 2010 is as follows:

	2011	2010
At fair value:		
Cash equivalents	\$ 500,000	\$ 13,000,000
Fixed income and co-mingled fixed income funds	34,250,097	39,290,002
Equity, equity mutual funds and co-mingled equity funds	106,367,564	79,720,992
Alternative investments	86,272,391	71,979,577
Total at fair value	227,390,052	203,990,571
At cost or market at date of acquisition:		
Real estate	8,372,049	8,319,818
Other	224,959	173,334
Total at cost or market at date of acquisition	8,597,008	8,493,152
Total investments	\$235,987,060	\$212,483,723

Investment income earned by the University is as follows:

	2011	2010 restated
Investment income	\$ 8,389,591	\$ 7,484,334
Net gains on investments reported at fair value	31,661,181	21,224,842
Other income	816,683	394,579
Investment fees and expenses	(4,714,369)	(3,677,722)
Total investment income, net	\$36,153,086	\$25,426,033

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 6 - INVESTMENTS - Continued

Investment fees and expenses netted against investment income are comprised of the following components:

	<u>2011</u>	<u>2010</u>
Management, direct fund and custodial fees	\$1,870,097	\$1,590,334
Commingled fund and partnership expenses	1,331,562	1,367,889
Incentive fees	<u>1,512,710</u>	<u>719,499</u>
Total investment fees and expenses	<u>\$4,714,369</u>	<u>\$3,677,722</u>

NOTE 7 - 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 and 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. 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.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 7 - FAIR VALUE MEASUREMENT - Continued

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 consolidated statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2011.

	Assets at Fair Value as of June 30, 2011			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents -				
Money markets	\$38,838,710	\$ -	\$ -	\$38,838,710
Investments carried at fair value:				
Cash equivalents	500,000	-	-	500,000
Fixed income:				
Core bonds co-mingled funds	-	18,390,616	-	18,390,616
Global bonds co-mingled funds	-	8,662,455	-	8,662,455
Inflation-protected U.S. Treasury co-mingled funds	-	2,263,407	-	2,263,407
U.S. Treasury and agency co-mingled funds	-	4,933,619	-	4,933,619
Equities:				
Large Cap equity, mutual funds and co-mingled funds	39,814,797	108,129	-	39,922,926
All cap co-mingled funds	-	21,798,415	-	21,798,415
International co-mingled funds	-	19,880,877	-	19,880,877
Emerging markets co-mingled funds	-	24,765,346	-	24,765,346
Alternative investments:				
Natural resources stock index co-mingled funds and limited partnerships	-	4,297,301	1,467,205	5,764,506
Commodities co-mingled funds	-	13,478,350	-	13,478,350
Distressed debt limited partnerships	-	-	6,394,857	6,394,857
Directional strategies co-mingled funds	-	30,456,210	-	30,456,210
Relative value and event-driven co-mingled funds	-	-	29,823,578	29,823,578
Private capital limited partnerships	-	-	354,890	354,890
Total investments at fair value	40,314,797	149,034,725	38,040,530	227,390,052
Beneficial interest in funds held in trust by others	-	-	4,600,549	4,600,549
Total	<u>\$79,153,507</u>	<u>\$149,034,725</u>	<u>\$42,641,079</u>	<u>\$270,829,311</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 7 - FAIR VALUE MEASUREMENT - Continued

The following table includes additional disclosures required by Accounting Standards Codification (ASC) 820 for the fair value measurements of investments valued at net asset value at June 30, 2011.

<u>Category</u>	<u>Level 2 Fair Value</u>	<u>Level 3 Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity mutual funds	\$ 108,128	\$ -	\$ -	Daily	N/A
Fixed income mutual funds	380,002	-	-	Daily	N/A
All cap equity co-mingled funds	21,798,415	-	-	Monthly	5 days
International equity co-mingled funds	19,880,877	-	-	Monthly	5 days
Emerging markets equity co-mingled funds	24,765,346	-	-	Monthly	5 days
Core bonds co-mingled funds	18,010,614	-	-	-	-
Global bonds co-mingled funds	8,662,455	-	-	-	-
Inflation-protected U.S. Treasury co-mingled funds	2,263,407	-	-	-	-
U.S. Treasury and agency co-mingled funds	4,933,620	-	-	-	-
Natural resources index co-mingled fund	4,297,301	-	-	-	-
Natural resources limited partnership	-	1,467,205	3,887,500	No redemption capability until partnership liquidation in November 2023	
Commodities co-mingled funds	13,478,350	-	-	Monthly	30 days
Distressed debt limited partnerships	-	6,394,857	2,650,400	Annually	120 days
Directional strategies co-mingled funds	30,456,210	-	-	Monthly	5 days
Relative value and event-driven co-mingled funds	-	29,823,578	-	Annually	95 days
Private capital limited partnerships	-	354,890	6,098,000	No redemption capability until partnership liquidation in December 2023 and August 2024	
	<u>-</u>	<u>-</u>	<u>-</u>		
Total	<u>\$149,034,725</u>	<u>\$38,040,530</u>	<u>\$12,635,900</u>		

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.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 7 - FAIR VALUE MEASUREMENT - Continued

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:

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 \$3,887,500 as of June 30, 2011, of which \$800,000 is expected to be funded by the University during fiscal 2012. 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 \$2,650,400 as of June 30, 2011, of which \$800,000 is expected to be funded by the University during fiscal 2012. Fair value of this investment was determined using net asset values.

International private equity and venture capital. These limited partnerships invest 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 partnerships are scheduled to terminate in December 2023 and August 2024, unless terminated earlier by the general partner in accordance with the provisions of the partnership agreement. The University's remaining commitment to these funds was \$6,098,000 as of June 30, 2011, of which \$560,000 is expected to be funded by the University during fiscal 2012. Fair value of this investment was determined using net asset values.

The following table includes a roll forward for the year ended June 30, 2011 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.

	<u>Alternative Investments</u>
Balance - June 30, 2010	\$ 33,682,835
Purchases	28,065,662
Sales	(22,458,290)
Net investment loss	(59,330)
Net realized gains	2,707,206
Change in value of split interest agreements	<u>702,996</u>
Balance - June 30, 2011	<u>\$ 42,641,079</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 7 - FAIR VALUE MEASUREMENT - Continued

The following table presents the financial instruments carried on the consolidated 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:				
Core bonds co-mingled funds	-	34,491,693	-	34,491,693
Inflation-protected U.S. Treasury co-mingled funds	-	3,112,850	-	3,112,850
U.S. Treasury and agency co-mingled funds	-	1,685,459	-	1,685,459
Equities:				
Large Cap equity, mutual funds and co-mingled funds	30,355,409	84,923	-	30,440,332
All cap co-mingled funds	-	15,996,854	-	15,996,854
International co-mingled funds	-	12,723,599	-	12,723,599
Emerging markets co-mingled funds	-	20,560,207	-	20,560,207
Alternative investments:				
Long-short hedged equity co-mingled funds and limited partnerships	-	10,847,084	11,014,329	21,861,413
Natural resources limited partnerships	-	-	985,838	985,838
Commodities co-mingled funds	-	12,304,019	-	12,304,019
Distressed debt limited partnerships	-	-	4,866,965	4,866,965
Directional strategies co-mingled funds	-	19,043,192	-	19,043,192
Relative value and event-driven co-mingled funds	-	-	12,865,912	12,865,912
Private capital limited partnerships	-	-	52,238	52,238
Total investments at fair value	43,355,409	130,849,880	29,785,282	203,990,571
Beneficial interest in funds held in trust by others	-	-	3,897,553	3,897,553
Total	<u>\$79,679,212</u>	<u>\$130,849,880</u>	<u>\$33,682,835</u>	<u>\$244,211,927</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 7 - FAIR VALUE MEASUREMENT - Continued

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.

	<u>Alternative Investments</u>
Balance - June 30, 2009	\$ 27,407,954
Purchases	15,873,444
Sales	(12,528,143)
Net investment loss	(113,873)
Net realized gains	2,715,127
Change in value of split interest agreements	<u>328,326</u>
Balance - June 30, 2010	<u>\$ 33,682,835</u>

NOTE 8 - ENDOWMENTS

The University's 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. 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 - The University interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted in the State of Texas as allowing the University, absent explicit donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. However, during the years ended June 30, 2011 and 2010, the University continued to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds. 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.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 8 - ENDOWMENTS - Continued

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				
<u>As of June 30, 2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (109,268)	\$149,875,725	\$77,082,509	\$226,848,966
Board-designated endowment funds	<u>42,133,933</u>	<u>-</u>	<u>-</u>	<u>42,133,933</u>
Total endowment net assets	<u>\$42,024,665</u>	<u>\$149,875,725</u>	<u>\$77,082,509</u>	<u>\$268,982,899</u>
Endowment Net Asset Composition				
By Type of Fund				
<u>As of June 30, 2010</u>	<u>Unrestricted restated</u>	<u>Temporarily Restricted restated</u>	<u>Permanently Restricted restated</u>	<u>Total restated</u>
Donor-restricted endowment funds	\$ (646,717)	\$130,231,094	\$71,965,959	\$201,550,336
Board-designated funds endowment funds	<u>40,233,357</u>	<u>-</u>	<u>-</u>	<u>40,233,357</u>
Total endowment net assets	<u>\$39,586,640</u>	<u>\$130,231,094</u>	<u>\$71,965,959</u>	<u>\$241,783,693</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 8 - ENDOWMENTS - Continued

The University endowment net assets and changes in endowment nets assets for the years ended June 30, 2011 and 2010 are reported in the following table. The University's beneficial interest in funds held in trust by others of \$4,600,549, \$3,897,553 and \$3,569,227 for June 30, 2011, 2010 and 2009, respectively, is included in endowment net asset balances within the table. Changes in the fair value of the University's beneficial interest in funds held in trust by others is reported as change in value of split interest agreements within the table.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2009 (as restated)	\$ 36,919,216	\$120,774,238	\$69,205,906	\$226,899,360
Investment return:				
Investment income, as restated	3,225,626	22,008,063	-	25,233,689
Change in value of split interest agreements, as restated	<u>-</u>	<u>62,339</u>	<u>265,987</u>	<u>328,326</u>
Total net investment return	3,225,626	22,070,402	265,987	25,562,015
Contributions	10,000	-	2,444,066	2,454,066
Appropriated for expenditure	(14,073,195)	-	-	(14,073,195)
Net assets released from restrictions, as restated	12,563,546	(12,563,546)	-	-
Change in donor-imposed restriction, as restated	-	(50,000)	50,000	-
Transfers from other funds	<u>941,447</u>	<u>-</u>	<u>-</u>	<u>941,447</u>
Endowment net assets at June 30, 2010 (as restated)	39,586,640	130,231,094	71,965,959	241,783,693
Investment return:				
Investment income	4,123,671	31,554,670	-	35,678,341
Change in value of split interest agreements	<u>-</u>	<u>115,643</u>	<u>587,354</u>	<u>702,997</u>
Total net investment return	4,123,671	31,670,313	587,354	36,381,338
Contributions	-	-	3,579,072	3,579,072
Change in donor-imposed restriction	-	-	615,272	615,272
Appropriated for expenditure	(13,711,328)	-	-	(13,711,328)
Net assets released from restrictions	12,025,682	(12,025,682)	-	-
Transfers from other funds	<u>-</u>	<u>-</u>	<u>334,852</u>	<u>334,856</u>
Endowment net assets at June 30, 2011	<u>\$ 42,024,665</u>	<u>\$149,875,725</u>	<u>\$77,082,509</u>	<u>\$268,982,899</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 8 - ENDOWMENTS - Continued

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. Deficiencies of this nature are reported as a reduction of unrestricted net assets and totaled \$109,268 and \$646,717, as of June 30, 2011 and June 30, 2010, 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. An illiquid investment 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 June 30 of the preceding fiscal year. The spending rate was 5.3% for fiscal year 2011 and 5.5% for fiscal 2010. The University plans to reduce the spending rate to 5.15% and 5.0% in fiscal years 2012 and 2013, respectively. Spending on endowments with a market value less than \$25,000 is retained in the endowment unless distribution is specifically required by the donor.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 8 - ENDOWMENTS - Continued

The University employs a reduced spending rate for endowments with deficiencies of market value to permanently restricted net asset value as of the date of the spending calculation. For endowments with deficiencies less than 10%, the spending rate is reduced to 4%. For endowments with deficiencies greater than 10% but less than 20%, the spending rate is reduced to 3%. Endowments with deficiencies greater than 20% have no spending appropriation for the year.

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.

NOTE 9 - INVESTMENT IN PLANT - NET

At June 30, 2011 and 2010, investment in plant - net consists of the following:

	2011	2010
Land	\$ 111,509	\$ 111,509
Buildings	129,166,802	129,129,560
Furniture and Equipment	21,791,038	21,735,624
Library Books	10,288,870	9,991,785
Automobiles	730,339	718,116
Ground improvements	13,842,410	13,842,411
Total property	175,930,968	175,529,005
Less accumulated depreciation	(87,520,599)	(83,290,906)
	88,410,369	92,238,099
Construction in progress	2,103,617	1,454,653
Investment in plant — net	\$ 90,513,986	\$ 93,692,752

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 10 -NOTES PAYABLE

The University's notes and bonds payable as of June 30, 2011 and 2010, including related premiums of \$86,460 and \$115,217, respectively, consisted of the following:

	2011	2010
City of Crawford Education Facilities Corporation Higher Education Revenue Refunding Bonds Series 2004A, interest rates ranging from 4% to 5%, semiannual interest payments due, maturing at various dates through 2014	\$ 3,611,460	\$ 4,715,217
City of Crawford Education Facilities Corporation Higher Education Revenue Refunding Bonds Series 2004B, bearing a variable rate of interest averaging 0.23% during fiscal 2011, 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	4,505,000	4,640,000
Total	\$27,156,460	\$28,395,217

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 \$28,775 was amortized against interest expense during fiscal years 2011 and 2010. 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 2012, 2013 and 2014 principal payments of \$1,120,000, \$1,180,000 and \$1,225,000 respectively, will become due.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 10 -NOTES PAYABLE - Continued

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, 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 2012, 2013, 2014, 2015, 2016 and thereafter principal payments of \$140,000, \$145,000, \$155,000, \$160,000, \$170,000 and \$3,735,000, respectively, will become due. Subsequent to issuance of the loan, 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 ASC 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, 2011.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 11 - 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 \$1,739,577 and \$2,287,681 for fiscal years 2011 and 2010, respectively, were expensed. In addition, supplemental payments totaling \$3,581 and \$6,137 in fiscal years 2011 and 2010, 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 \$5,167,338 and claims paid per employee by the University during a plan year to \$175,000. The University recognized expenses related to the Health Plan of \$4,133,882 and \$3,651,774 in fiscal year 2011 and 2010, respectively.

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 ASC 715-60 *Defined Benefits Plans - Other Post Retirement*, and 715-20 *Defined Benefit Plans - General*, unamortized costs are reflected in the consolidated 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:

	<u>Beginning balance of unamortized amounts</u>	<u>Amount amortized into net periodic benefit costs</u>	<u>Current year gains/losses</u>	<u>Ending balance of unamortized amounts</u>
Net gains/losses	\$16,403,004	\$(1,548,965)	\$ (119,565)	\$14,734,474
Prior service costs	<u>(2,666,892)</u>	<u>652,103</u>	<u>(1,947,657)</u>	<u>(3,962,446)</u>
	<u>\$13,736,112</u>	<u>\$ (896,862)</u>	<u>\$ (2,067,222)</u>	<u>\$10,772,028</u>

In fiscal year 2011, the University expects to recognize as net periodic benefit approximately \$1,550,000 and \$650,000 of previously unamortized net gain and net prior service cost, respectively.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 11 - BENEFIT PLANS - Continued

The status of the University's accrued postretirement benefit cost at June 30, 2011 and 2010, is as follows:

	2011	2010
Reconciliation of benefit obligation:		
Obligation at beginning of year	\$ 30,319,375	\$ 22,371,677
Service cost including expenses	659,883	517,687
Interest cost	1,516,533	1,524,225
Actuarial (gain)/loss	(2,067,132)	6,755,424
Benefit payments and expected expenses	(885,874)	(849,638)
Obligation at end of year	29,542,785	30,319,375
Reconciliation of fair value of plan assets:		
Employer contributions	885,874	849,638
Benefit payments and actual expenses	(885,874)	(849,638)
Fair value of plan assets at end of year	-	-
Funded status at end of year	\$(29,542,785)	\$(30,319,375)

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

	2011	2010
Current liabilities	\$ (956,238)	\$ (909,994)
Noncurrent liabilities	(28,586,457)	(29,409,381)
Total	\$(29,542,695)	\$(30,319,375)

Net periodic postretirement benefit cost recognized during fiscal year 2011 and 2010, is as follows:

	2011	2010
Service cost	\$ 659,883	\$ 517,687
Interest cost	1,516,533	1,524,225
Amortization of prior actuarial loss	1,548,965	1,100,966
Amortization of prior service gain from plan amendment	(652,103)	(429,717)
Total	\$3,073,278	\$2,713,161

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 11 - BENEFIT PLANS - Continued

The University used a weighted average discount rate of 5.61% and 5.43% to determine the post retirement benefit obligation at June 30, 2011 and 2010, respectively. An average discount rate of 5.43% and 6.24% was used to determine the net periodic benefit cost for fiscal years 2011 and 2010, respectively.

In determining the net periodic benefit cost the assumed pre-Medicare health care cost trend rate was 7.1% for fiscal year 2011, declining gradually to 4.7% by 2083. The assumed post-Medicare health care cost trend rate was 7.1% for fiscal year 2011, declining gradually to 4.7% by 2083. In determining the post retirement benefit obligation at June 30, 2011, the assumed health care cost trend rate was 8.0% for 2011 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, 2011, by \$5,517,120 and the aggregate of service cost and interest cost components of net periodic postretirement benefit cost for the year then ended by \$451,554. 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 \$4,429,052 and the aggregate of service cost and interest cost components of net periodic postretirement benefit cost for the year then ended by \$356,391.

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:

	<u>Before Subsidy</u>	<u>Effect of Subsidy</u>	<u>After Subsidy</u>
Service cost	\$ 783,946	\$(124,063)	\$ 659,883
Interest cost	1,821,669	(305,136)	1,516,533
Amortization of prior service cost	(652,103)	-	(652,103)
Amortization of net (gain) loss	<u>1,856,871</u>	<u>(307,906)</u>	<u>1,548,965</u>
Total net periodic benefit cost	<u>\$3,810,383</u>	<u>\$(737,105)</u>	<u>\$3,073,278</u>

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 11 - BENEFIT PLANS - Continued

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

	2011	2010
Net loss (gain)	\$ (119,565)	\$ 6,755,424
Prior service cost (credit)	(1,947,657)	-
Amortization of net loss (gain)	(1,548,965)	(1,100,966)
Amortization of prior service cost	652,103	429,717
Total recognized in unrestricted net assets	(2,964,084)	6,084,175
Total recognized in net periodic benefit cost and unrestricted net assets	\$ 109,194	\$ 8,797,336

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 <u>June 30,</u>	
2012	\$ 982,694
2013	1,041,323
2014	1,101,390
2015	1,199,132
2016	1,321,705
2017-2021	8,039,296

NOTE 12 - 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, 2011. The University has obtained approval to renew this line of credit for the period of June 30, 2011 through June 30, 2012. The University did not draw on this line of credit in either fiscal year 2011 or 2010.

Southwestern University

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 13 - 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, 2011 and 2010, 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 4) and notes payable (Note 10). 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 \$27,156,460 and \$28,395,217 and have an estimated fair value of \$27,469,099 and \$28,867,911 at June 30, 2011 and 2010, respectively. These amounts were determined using rates currently available to the University for debt with similar terms and maturities.

NOTE 14 - COMMITMENTS

The University has contracts for the construction of infrastructure projects and for other building and classroom improvements. At June 30, 2011, the remaining commitments under these contracts approximated \$2,530,000.

NOTE 15 - 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.

NOTE 16 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through December 12, 2011, the date when consolidated financial statements were available to be issued, and has determined there are no material subsequent events or transactions that would require additional disclosure in the University's consolidated financial statements.