LA SALLE UNIVERSITY

Financial Statements

May 31, 2010
(with comparative information for May 31, 2009)

(With Independent Auditors' Report Thereon)

LA SALLE UNIVERSITY

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
La Salle University:

We have audited the accompanying statement of financial position of La Salle University (the University) as of May 31, 2010, 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 prior year summarized comparative information has been derived from the 2009 financial statements and, in our report dated September 28, 2009, we expressed an unqualified opinion of those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 La Salle University as of May 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 1, 2010

LA SALLE UNIVERSITY

Statement of Financial Position

May 31, 2010
(with comparative totals for May 31, 2009)

Assets		**2010**	**2009**
Assets:			
Cash and cash equivalents	$	9,025,742	4,972,688
Accounts receivable, net		4,370,519	4,122,492
Prepaids and other assets		1,263,277	1,118,252
Notes receivable		141,755	461,318
Contributions receivable, net		2,247,578	3,133,833
Student loans receivable, net		6,943,003	7,184,225
Investments		56,949,034	55,224,020
Deferred bond issuance costs		2,826,706	2,937,940
Debt service reserve funds held by bond trustees		11,425,012	11,632,048
Land, buildings, and equipment, net		137,453,489	138,360,216
Funds held in trust by others		785,735	715,715
Collections		3,767,339	3,752,726
Total assets	$	237,199,189	233,615,473
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	3,182,401	5,197,043
Deferred income		5,500,018	4,699,149
Short-term bonds payable		2,560,000	2,440,000
Accrued compensation		7,198,031	6,535,651
Other liabilities		2,010,365	1,777,987
Advances from federal government for student loans		5,984,029	5,910,607
Postretirement benefit liability		11,630,974	9,854,286
Bonds payable		130,275,000	132,835,000
Total liabilities		168,340,818	169,249,723
Net assets:			
Unrestricted		38,129,190	35,527,451
Temporarily restricted		12,294,239	11,355,422
Permanently restricted		18,434,942	17,482,877
Total net assets		68,858,371	64,365,750
Total liabilities and net assets	$	237,199,189	233,615,473

See accompanying notes to financial statements.

LA SALLE UNIVERSITY

Statement of Activities

Year ended May 31, 2010
(with comparative totals for the year ended May 31, 2009)

	2010				2009
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenue:					
Tuition and fees, net of discount of $49,301,915	$ 84,925,608	—	—	84,925,608	79,164,730
Grant and contract income	6,280,098	—	—	6,280,098	6,184,122
Private gifts	3,275,205	624,004		3,899,209	3,701,985
Activities related to academic areas	2,150,971	—	—	2,150,971	2,162,610
Sales and services of auxiliary enterprises	24,699,374	—	—	24,699,374	23,962,392
Dividend and interest income on short-term investments	596,033	—	—	596,033	1,109,885
Use of endowment resources	3,509,858	—	—	3,509,858	4,661,153
Administrative and other revenues	3,106,484	—	—	3,106,484	2,228,747
Net assets released from restrictions	859,969	(859,969)	—	—	—
Total operating revenue	129,403,600	(235,965)	—	129,167,635	123,175,624
Operating expense:					
Instruction	45,138,759	—	—	45,138,759	43,577,228
Research	1,334,019	—	—	1,334,019	2,029,910
Academic support	13,893,890	—	—	13,893,890	13,323,040
Student services and athletics	18,280,887	—	—	18,280,887	16,969,261
Public service	3,293,733	—	—	3,293,733	3,216,167
Institutional support	23,530,698	—	—	23,530,698	19,239,204
Auxiliary enterprises	21,371,711	—	—	21,371,711	22,439,082
Total operating expense	126,843,697	—	—	126,843,697	120,793,892
Change in net assets from operating activities	2,559,903	(235,965)	—	2,323,938	2,381,732
Nonoperating activities – additions (deductions):					
Dividend and interest income on long-term investments	213,603	324,020	—	537,623	1,108,537
Endowment gifts	—	—	882,045	882,045	692,240
Realized losses on investments	(1,645,881)	(1,561,221)	—	(3,207,102)	331,988
Unrealized gains on investments	4,058,984	3,336,971	70,020	7,465,975	(19,056,275)
Use of endowment resources	(3,509,858)	—	—	(3,509,858)	(4,661,153)
Net assets released from restrictions	924,988	(924,988)	—	—	—
Change in net assets from nonoperating activities	41,836	1,174,782	952,065	2,168,683	(21,584,663)
Total change in net assets	2,601,739	938,817	952,065	4,492,621	(19,202,931)
Net assets, beginning of year	35,527,451	11,355,422	17,482,877	64,365,750	83,568,681
Net assets, end of year	$ 38,129,190	12,294,239	18,434,942	68,858,371	64,365,750

See accompanying notes to financial statements.

LA SALLE UNIVERSITY

Statement of Cash Flows

Year ended May 31, 2010
(with comparative totals for the year ended May 31, 2009)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	4,492,621	(19,202,931)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		6,528,373	6,210,166
Amortization of deferred bond issuance costs		111,234	111,235
Realized loss (gain) on sale of investments		3,207,102	(331,988)
Unrealized (gain) loss on investments		(7,465,975)	19,056,275
Restricted endowment contributions		(882,045)	(692,240)
Change in funds held in trust by others		(70,020)	227,213
Change in postretirement benefit liability		1,776,688	247,986
Changes in operating assets and liabilities:			
Accounts receivable		(248,027)	(282,774)
Prepaids and other assets		(145,025)	320,563
Contributions receivable		886,255	346,190
Accounts payable and accrued expenses and accrued compensation		713,087	598,682
Deferred income		800,869	501,850
Other liabilities		232,378	128,974
Net cash provided by operating activities		9,937,515	7,239,201
Cash flows from investing activities:			
Purchase of investments		(30,332,521)	(22,905,763)
Proceeds from sale of investments		32,866,380	28,024,665
Purchase of property and equipment		(7,686,995)	(31,481,691)
Use of bond proceeds		—	30,172,304
Purchase of collections		(14,613)	(210,081)
Short-term notes receivable repaid		319,563	25,595
Advances from federal government		73,422	—
Student loans issued		(475,437)	(545,405)
Student loans repaid		716,659	560,349
Net cash (used in) provided by investing activities		(4,533,542)	3,639,973
Cash flows from financing activities:			
Restricted endowment contributions		882,045	692,240
Payments on long-term debt		(2,440,000)	(2,330,000)
Payments on line-of-credit borrowing		—	(5,000,000)
Use of bond proceeds and debt service reserve funds		207,036	684,589
Net cash used in financing activities		(1,350,919)	(5,953,171)
Net increase in cash and cash equivalents		4,053,054	4,926,003
Cash and cash equivalents at beginning of year		4,972,688	46,685
Cash and cash equivalents at end of year	$	9,025,742	4,972,688
Supplemental disclosure:			
Cash paid for interest	$	5,260,543	5,663,296
Noncash investing and financing activities:			
Receipt of donated collections	$	8,350	182,806

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

La Salle University (the University) is an independent, coeducational university founded in 1863 by the Christian Brothers, a Catholic order dedicated to teaching and career preparation. The University is committed to academic excellence and individualized attention in a values-based, interfaith educational community.

Founded in center city Philadelphia on March 20, 1863 as an all-male college, the University moved twice, in 1867 and 1886, before settling in its present location in what was known then as "Wister Farms" in the East Germantown-Logan section of the city in 1929.

By 1990, the majority of the full-time student body comprised resident students. The University opened its Bucks County campus in 1997. The University currently offers undergraduate concentrations in almost 60 academic areas within its four schools: Arts and Sciences, Business Administration, Nursing, and Continuing Studies. These range in focus from the standard programs of study to high-tech areas such as Digital Arts and Multimedia Design as well as Integrated Science, Business, and Technology. Additionally, the University offers 13 graduate programs, including the University's first doctoral program in clinical psychology.

The University's population is 6,470 students, including 3,193 full-time undergraduates (about two thirds of whom are resident students), approximately 1,254 part-time undergraduates, and 2,023 graduate and doctorate students.

The University is incorporated under the laws of the Commonwealth of Pennsylvania as a not-for-profit corporation and is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as a tax-exempt educational organization. The University is accredited by the following organizations: the Commission on Higher Education of the Middle States Association of Colleges and Schools, the Pennsylvania Department of Education, the American Association of Colleges for Teacher Education, the American Chemical Society, the Pennsylvania State Board of Law Examiners, the Council on Social Work Education, the AACSB (the International Association for Management Education), and the National League for Nursing.

(b) Basis of Presentation

The University's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that require the original contribution to be maintained permanently by the University, but permit the use of the investment return for general or specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that are met by actions of the University and/or the passage of time. Temporarily restricted net assets include investment return earned on permanently restricted net assets.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reclassified between the applicable classes of net assets and reported as net assets released from restrictions. Contributions and investment return received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

(c) Operating and Nonoperating Activities

Results from operations in the statement of activities reflects all transactions increasing or decreasing unrestricted net assets or temporarily restricted net assets except those of a long-term investment nature. Specifically, transactions related to permanently restricted net assets, gifts for capital purposes, investment return on the University's permanently restricted net assets and other investments designed for long-term purposes, and transactions of an unusual or infrequent nature are considered to be nonoperating.

(d) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are met. Promises to give that will be received after one year are recognized at their net present value, net of an allowance for uncollectible amounts. The discount related to these promises to give is amortized as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Contributions of land, building, and equipment are reported as unrestricted, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Noncash gifts are recorded at fair value on the date of the donation. Gifts of cash and other assets without donor stipulations are reported as unrestricted operating revenue when the gift is received.

(e) Grants and Contracts

The University receives grant and contract income from government and private sources. The University recognizes revenue associated with the costs of the sponsored programs as the related expenditures are incurred.

(f) Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with original maturity dates not exceeding 90 days, except those held for long-term investment purposes.

(g) Accounts Receivable

Accounts receivable consist primarily of student receivables, which are recorded net of an allowance for uncollectible amounts of $1,053,413 and $1,267,316 at May 31, 2010 and 2009, respectively. The allowance for bad debts is calculated based on the current unpaid balances and the historical collection activity. The University maintains a policy whereby receivables outstanding for more than one year for students who are no longer enrolled at the University are reserved as uncollectible; the University also reserves 15% of accounts receivable that have been past due for less than one year. As of May 31, 2010 and 2009, the University had no significant concentration of credit risk with regard to accounts receivable.

(h) Student Loans Receivable

Student loans receivable consist primarily of loans made to students under U.S. government loan programs, which are recorded net of an allowance for uncollectible amounts of $300,000 at May 31, 2010 and 2009, respectively. As of May 31, 2010 and 2009, the University had no significant concentration of credit risk with regard to student loans receivable.

(i) Investments

Investments are stated at fair value (note 1(n)).

Realized and unrealized gains and losses arising from increases or decreases in market values are recognized in the period in which they occur and reported as nonoperating activities in the statement of activities. Dividend and interest income are accrued as earned.

The University’s investments are exposed to various risks such as interest rate, market, and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

(Continued)

(j) Deferred Costs

Deferred costs represent bond issuance costs that are amortized over the life of the related bonds.

(k) Land, Buildings, and Equipment

Physical plant and equipment are stated at cost at date of purchase or fair value at date of donation in the case of gifts. Assets are depreciated using the straight-line method over 10 to 25 years for land improvements, 50 years for buildings, and 4 to 10 years for equipment.

Maintenance and repairs are recorded as expenses when incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation or amortization are relieved, and any gain or loss is reported in the statement of activities.

Property and equipment used in exchange transactions, such as research and instructional grants, in which the resource provider retains legal title during the term of the arrangement is not capitalized until the grant terminates and legal title is transferred to the University.

Long-lived assets to be held and used are reviewed for impairments whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. If an asset is considered impaired at year-end, its value is recorded as a change in unrestricted net assets. No impairments were recorded in fiscal years 2010 and 2009.

(l) Collections

All contributions of works of art, historical treasures, and similar assets have been recognized at their estimated fair value at the date of receipt based upon appraisals or similar valuations, or at cost if purchased. All such items, whether contributed or purchased, have been capitalized. Works of art, historical treasures, and similar items are not depreciated. The University's collection has recently been appraised at approximately $15.5 million.

(m) Deferred Income

Revenues received in exchange transactions for specific activities that have not yet taken place are recorded as deferred revenue. Significant components of deferred revenue include student tuition and educational fees received in advance of services to be rendered and unexpended advances of grant and contract revenues.

(n) Fair Value of Financial Instruments

The three levels of the fair value hierarchy are described below. The hierarchy gives the highest priority to unadjusted quoted process in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements):

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instrument in markets that are not active, and model-derived valuations whose inputs are observable or whose primary values are observable.

Level 3: Instruments whose primary value drivers are unobservable.

The hierarchy requires the use of observable market data when available. The University's assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following discussion describes the valuation methodologies used for assets and liabilities measured at fair value.

Contributions Receivable

The University values contributions receivable at fair value on the date the gift is received using the present value of future cash flows. Contributions receivable are not measured at fair value subsequent to this initial measurement because the initial discount rate will remain constant over time rather than adjusting to reflect changing financial conditions.

Student Loans Receivable

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans, is not practicable because they are subject to U.S. government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. As such, these amounts are held at face value, net of any allowances.

Investments

Fair value of equity securities has been determined from observable market quotations, when available. Fair value for fixed maturity securities is based upon prices provided by the University's investment managers and custodian banks. Both the investment managers and the custodian banks use a variety of pricing sources to determine fixed maturity market valuations. Each designates specific pricing services or indexes for each section of the market based upon the nature of its portfolio and expertise.

Estimated fair value of private equity investments and hedge funds that are not readily marketable are recorded at the net asset value as provided by external investment managers as a practical expedient for fair value. The University reviews and evaluates the values provided by external investment managers and the valuation methods and assumptions used in determining the net asset value of those investments.

Bonds Payable

The fair value of variable rate revenue bonds is based on current interest rates for bonds of similar nature and maturities. Fixed rate bond debt is determined by discounting future cash flows of each instrument at rates that reflect, among other things, market interest rates, and the University's credit standing.

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(o) Lines of Credit

The University has lines of credit available in the amount of $7 million and $14 million as of May 31, 2010 and 2009, respectively. There was no outstanding balance at May 31, 2010 and 2009, respectively.

(p) Income Taxes

The University has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements, and the University has no tax positions that are more likely than not for the recognition and derecognition of tax positions taken or expected to be taken in a tax return.

(q) Fund-Raising

Fund-raising costs totaled $1,912,414 and $1,831,635 in 2010 and 2009, respectively, and are included in institutional support in the statement of activities.

(r) Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Depreciation and plant operation expenses are allocated based on square footage. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt.

(s) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(t) New Accounting Pronouncements

The University adopted the provisions of Accounting Standards Codification (ASC) 820-10-50-6A, *Fair Value of Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)* regarding disclosures about its investments in certain entities that calculate net asset value per share (or its equivalent) for the year ended May 31, 2010. These disclosures are included in note 1.

(u) Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2009, from which the summarized information was derived.

(Continued)

(2) Investments

The following table presents the University's fair value hierarchy for investments measured at fair value at May 31, 2010:

		Fair value and net asset value measurements at reporting date using			
	2010	**Level 1**	**Level 2**	**Level 3**	**2009**
Fair value:					
Cash and cash equivalents	$ 2,316,885	2,316,885	—	—	5,402,233
Domestic equities	15,237,751	14,334,656	903,095	—	12,881,080
Foreign equities	10,209,907	10,209,907	—	—	8,635,323
Fixed income	8,062,830	8,062,830	—	—	8,223,535
Other investments	5,518,545	4,114,569	1,403,976	—	2,492,760
Net asset value:					
Hedge funds	8,812,050	—	—	8,812,050	12,504,064
Private equity and venture capital	6,791,066	—	—	6,791,066	5,085,025
Total investments	$ 56,949,034	39,038,847	2,307,071	15,603,116	55,224,020
Funds held in trust by others	$ 785,735	—	785,735	—	715,715

The following table presents investments measured at net asset value using significant unobservable inputs (Level 3) for the year ended May 31, 2010:

	Net asset value measurements using significant unobservable inputs (Level 3)		
	Hedge funds	**Private equity and venture capital**	**Total**
Beginning balance	$ 12,504,064	5,085,025	17,589,089
Total gains or losses (realized/unrealized)	1,192,382	700,462	1,892,844
Purchases, issuances, and settlements, net	(4,884,396)	1,005,579	(3,878,817)
Transfer in and/or out of Level 3	—	—	—
Ending balance	$ 8,812,050	6,791,066	15,603,116
The amount of total gains or losses for the period attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ 1,080,432	700,462	1,780,894

As of May 31, 2010, the University has committed to invest an additional $4,796,654 in various partnerships within its private equity and venture capital funds as called by investment managers.

The following table presents the attributes of the organization's investments in certain investment vehicles that calculate net asset value per share (or its equivalent) at May 31, 2010 (in thousands):

	Fair value	Estimated remaining lives	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedge funds:					
Absolute return (a)	$ 8,812,050	N/A	—	quarterly to every 2 years	60 to 90 days
Total hedge funds	8,812,050		—		
Private equity/Venture capital:					
Private equity (b)	2,644,204	5 to 12 years	2,180,106	None	N/A
Venture capital (c)	2,630,550	5 to 12 years	2,100,548	None	N/A
Natural resources (d)	461,695	11 to 14 years	516,000	None	N/A
Real estate fund (e)	1,054,617	1 year	—	See (e)	60 days
Total private equity	6,791,066		4,796,654		
Total	$ 15,603,116		$ 4,796,654		

(a) The hedge funds category includes investments that should have absolute and relative returns that exhibit moderate volatility and a low correlation to overall stocks and bond markets. The absolute return portfolio is diversified by manager and strategy, and is implemented through fund-of-funds managers. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The redemption terms for 50% of the value of this investment is quarterly with 60 days' notice. Approximately 35% of the value is redeemable annually on December 31 with 90 days' notice and the remaining 15% can be redeemed every other year at December 31 with 90 days' notice.

(b) The private equity category includes investments in domestic and international private equity funds where the returns should be above long-term norms in the public equity markets in order to compensate for the illiquidity and nonmarket risks that are entailed. Returns in private equity instruments are determined to a greater extent by the manager's skill and thus are characterized by a wider dispersion of possible returns across different investment managers. Fund-of-fund investments are utilized in order to achieve diversification and exposure to a range of opportunities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All of these investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(c) The venture capital category includes investments in funds, which in turn make venture capital investments primarily in emerging growth companies with the objective of obtaining long-term growth capital. A portion of the funds also invest in the buyout and capital restructuring sectors. Fund-of-fund investments are utilized in order to achieve diversification and exposure to a range of opportunities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All of these investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(d) The natural resources category consists of investments through a fund-of-funds manager in limited partnerships, which in turn make oil, gas, and other natural resource-related investments with the objective of long-term growth of capital. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All of these investments receive distributions through the liquidation of the underlying assets of the fund and do not have redemption provisions.

(e) The real estate category includes an investment in a real estate fund to provide portfolio diversification relative to global equities and bonds, due to relatively low correlation with those markets and to offer some protection in the event of unanticipated inflation. The fair values of the investments in this fund have been estimated using the net asset value per share of the investments. The normal redemption terms for this fund are quarterly, with 60 days' notice. However, the fund has had a liquidity hold in place since July 2009. The University has delivered a request for full redemption from this fund effective July 2009. The redemption request is being acted upon by the fund as liquidity permits, and full redemption is not anticipated until the latter half of 2011. In July 2010 the fund released $142,339 to the University as a partial redemption.

(3) Deposits with Bond Trustees and Unexpended Bond Proceeds

Deposits with bond trustees in the amount of $11,425,012 and $11,632,048 at May 31, 2010 and 2009, respectively, represent debt service reserve funds, which are maintained for the University's 2007 and 2003 Series Pennsylvania Higher Educational Facilities Authority (PHEFA) bonds. As of May 31, 2010, these funds are invested in U.S. government and U.S. government-backed securities and classified as Level 2 in the fair value hierarchy.

(4) Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. The net present value of contributions receivable is calculated using a discount rate range of 2.10% to 5.04%. The net present value of contributions receivable as of May 31 is as follows:

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	$ 1,507,363	1,450,279
One year to five years	934,810	2,040,952
Total	2,442,173	3,491,231
Less:		
Allowance for doubtful contributions	93,649	130,576
Unamortized discount	100,946	226,822
Total	$ 2,247,578	3,133,833

(5) Land, Buildings, and Equipment, Net

The land, buildings, and equipment at May 31, 2010 and 2009 is as follows:

		2010	2009
Buildings	$	186,098,057	153,798,013
Land and improvements		29,082,769	29,082,769
Equipment and furniture		9,933,659	9,549,973
Library books		4,426,290	4,426,290
Construction in progress		134,029	29,701,714
		229,674,804	226,558,759
Less accumulated depreciation		92,221,315	88,198,543
Total	$	137,453,489	138,360,216

Depreciation expense was $6,528,373 and $6,210,166 for the years ended May 31, 2010 and 2009, respectively.

(6) Accrued Compensation

The University offers faculty the option of receiving their contract salary over either 9 or 12 months. At May 31, 2010 and 2009, accrued faculty salaries totaled $2,843,948 and $2,799,877, respectively, due to be paid to the faculty during June, July, and August. The University has established an accrual for administrative, staff, and service personnel for accumulated vacation benefits. The accrued accumulated vacation benefits for the years ended May 31, 2010 and 2009 are approximately $2,278,624 and $2,209,261, respectively. These amounts are included within accrued compensation expense.

(7) Bonds Payable

All bonds of the University have been issued by PHEFA. The University is obligated to the PHEFA under a loan instrument providing for payments equal to the amount of the debt service on the revenue bonds. The University is also required to meet certain liquidity and net revenue covenants. The following is a summary of bonds payable as of May 31:

	Maturity date	Interest rates		2010	2009
Series 2003 fixed (a)	2034	5.25% to 5.50%	$	37,665,000	37,665,000
Series 2007 fixed (b)	2037	4.00% to 5.25%		48,625,000	50,750,000
Series 2007 variable (b)	2037	variable (b)		46,545,000	46,860,000
Total PHEFA bonds payable			$	132,835,000	135,275,000

(a) The 2003 Series bonds consist of $37,665,000 of revenue bonds maturing through May 1, 2034. The proceeds of the bonds were used to finance construction of a new 425-bed student residence, located on the South Campus and additional classrooms at the Bucks County Center in Newtown, Pennsylvania, and to support other improvements.

(b) In October 2007, the University issued $52,875,000 of fixed rate and $49,820,000 of variable rate bonds through the PHEFA. Interest rates on the variable rate bonds are set through a weekly remarketing of the bonds through a remarketing agent and based on the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) Index. The weekly rates as of May 31, 2010 and 2009 were 0.45% and 4.25%, respectively. The variable rate bonds are supported with a letter of credit, which expires on October 16, 2012. If the letter of credit on the variable rate bonds is not renewed, the bonds could be subject to redemption. Fees are paid to the remarketing agent and the letter of credit provider at fixed annual costs totally 0.575%. The proceeds of the bonds were used to retire prior bond issues, and finance the Science and Technology Center.

The total interest expense for the years ended May 31, 2010 and 2009 was $5,118,562 and $5,647,128, respectively.

Aggregate maturities of bonds payable for each of the five fiscal years subsequent to May 31, 2010 and beyond are as follows:

2011	$	2,560,000
2012		2,680,000
2013		2,815,000
2014		2,925,000
2015		3,050,000
Thereafter		118,805,000
Total	$	132,835,000

Debt Covenants

The 2007 variable rate bonds are supported by a direct-pay letter of credit issued to enable the University to obtain a more favorable interest rate on the bonds. The letter of credit is issued pursuant to a Letter of Credit Reimbursement Agreement dated as of October 1, 2007 between the bank and the University (Reimbursement Agreement). The Reimbursement Agreement contains various financial and other covenants and agreements, including annual minimum debt service coverage ratio and liquidity covenants.

(8) Leases

(a) Operating Lease

The University has a noncancelable operating lease for 11,188 square feet of space to provide classroom space in Montgomery County. The lease ends October 10, 2016 and the monthly payment is $22,050.

Future minimum lease payments for operating leases, including the lease for the classroom space noted above, having a remaining term in excess of one year at May 31, 2010 are as follows:

2011	$	353,962
2012		312,283
2013		308,796
2014		307,209
2015		405,938
Thereafter		—

(b) Operating Lessor

The University owns properties that are rented to tenants for commercial purposes. Rental income under these leases for the year ended May 31, 2010 and 2009 was $2,255,383 and $2,464,918, respectively.

(9) Net Assets

		2010	2009
Temporarily restricted net assets:			
Pledges receivable – unrestricted purposes	$	1,239,378	1,800,345
Contributions for scholarships and academic programs		962,106	713,553
Charitable remainder trusts – unrestricted purposes		272,368	195,919
Accumulated realized and unrealized gain in endowment investments		9,820,387	8,645,605
Total temporarily restricted net assets	$	12,294,239	11,355,422
Permanently restricted net assets:			
Funds held in trust – unrestricted purposes	$	785,735	715,715
Endowment pledges receivable – unrestricted purposes		1,008,200	1,333,488
Endowment principal:			
Scholarships		11,807,291	11,149,730
Academic and general		4,833,716	4,283,944
Total permanently restricted net assets	$	18,434,942	17,482,877

(10) Endowment Funds

The University's endowment consists of approximately 120 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.

(a) Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Management of Institutional Funds Act (UMIFA). Governing law resides in 15 Pa. C.S. §5548 "Investment of Trust 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 in 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 relevant law. Pennsylvania law permits the Board of Trustees to make an election to annually appropriate for expenditure a selected percentage between 2% and 7% of the fair value of the assets related to donor-restricted endowment funds averaged over a period of three or more preceding years, provided the Board of Trustees has determined that such percentage is consistent with the long-term preservation of the real value of such assets.

(b) Return Objectives and Risk Parameters

Endowment funds include funds actively managed by the University as part of a single commingled investment pool as well as a limited number of individual funds that are separately invested or held in trust by others. The principal financial objective of the endowment pool is that the real purchasing power of the endowment principal should be preserved and if possible enhanced to help ensure the University's financial future. The productivity of the endowment pool must strike a balance between the preservation of principal in real terms for perpetuity and supporting a spending policy that sustains the educational mission of the University. To monitor the effectiveness of the investment strategy of the endowment pool, performance goals are established to exceed the expected real rate of return, established benchmark indices, and the median return of comparable endowment funds.

(c) Strategies Employed for Achieving Objectives

The Prudent Investor Rule of the Commonwealth of Pennsylvania views investment prudence on the part of the fiduciary from the standpoint of the total portfolio. Therefore, any reasonable investment may be considered for endowment pool assets as long as the risk and return tradeoff of the entire portfolio is prudent. The University's investment policy includes a target asset allocation, well diversified among suitable asset classes, that is expected to generate, on average, the level of expected return necessary to meet endowment objectives at a responsible level of volatility consistent with achieving that return.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution each year up to 5% of its funds based on a prior 12-quarter average endowment market value. In establishing this policy, the University considered the long-term expected return on its funds. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to continue to grow. This is

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consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. In addition, the Board appropriated $2,234,113 and $3,280,113 for the years ended May 31, 2010 and 2009 to support current operations from the quasi-endowment.

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. Deficiencies of this nature were $377,253 and $1,325,647 as of May 31, 2010 and 2009, respectively. Such deficiencies are recorded in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

(f) Net Asset Classifications of Endowment Funds

Net asset classification by type of endowment as of May 31, 2010 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (377,253)	9,820,387	17,426,742	26,869,876
Board-designated endowment funds	32,708,684	—	—	32,708,684
	$ 32,331,431	9,820,387	17,426,742	59,578,560

(Continued)

Changes in endowment net assets for the year ended May 31, 2010 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 30,398,977	8,645,605	16,149,389	55,193,971
Investment return:				
Investment income	213,603	324,020	—	537,623
Net depreciation (realized and unrealized gains and losses)	3,700,370	1,775,750	70,020	5,546,140
Total investment return	3,913,973	2,099,770	70,020	6,083,763
Contributions received	603,351	—	1,207,333	1,810,684
Appropriation of endowment assets for expenditure	(2,584,870)	(924,988)	—	(3,509,858)
	$ 32,331,431	9,820,387	17,426,742	59,578,560

Net asset classification by type of endowment as of May 31, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,325,647)	8,645,605	16,149,389	23,469,347
Board-designated endowment funds	31,724,624	—	—	31,724,624
	$ 30,398,977	8,645,605	16,149,389	55,193,971

Changes in endowment net assets for the year ended May 31, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 44,549,719	14,574,919	15,546,610	74,671,248
Investment return:				
Investment income	545,169	563,368	—	1,108,537
Net depreciation (realized and unrealized gains and losses)	(11,825,724)	(5,216,626)	(227,213)	(17,269,563)
Total investment return	(11,280,555)	(4,653,258)	(227,213)	(16,161,026)
Contributions received	514,910	—	829,992	1,344,902
Appropriation of endowment assets for expenditure	(3,385,097)	(1,276,056)	—	(4,661,153)
	$ 30,398,977	8,645,605	16,149,389	55,193,971

(11) Concentration of Risk

Financial instruments, which potentially subject the University to significant concentrations of credit risk, consist primarily of cash and cash equivalents. Cash held in its accounts exceeds the federally insured levels. The University periodically evaluates the credit standing of the financial institutions with which it maintains its cash and cash equivalents.

(12) Retirement Plans

Certain full-time and regular part-time employees of the University are eligible for the University's defined contribution plan. The amounts contributed by the University in fiscal years 2010 and 2009 were $1,453,874 and $1,748,697, respectively.

The University also provides health and life insurance benefits for eligible employees upon retirement at the University's early or normal retirement ages. The following table sets forth the plan's change in benefit obligations and change in plan assets for the year ended May 31:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	9,854,286	9,606,300
Service cost		232,812	238,135
Interest cost		661,519	630,010
Actuarial gain (loss)		1,351,252	(148,142)
Benefits paid		(512,083)	(513,200)
Medicare Part D prescription drug federal subsidy		43,188	41,183
Benefit obligation at end of year	$	11,630,974	9,854,286
Change in plan assets:			
Fair value of plan assets beginning of year	$	—	—
Benefits paid		(512,083)	(513,200)
Employer contribution		468,895	472,017
Medicare Part D subsidy received		43,188	41,183
Participants contribution		—	—
Fair value of plan assets end of year	$	—	—

Weighted average assumptions used to determine benefit obligations as of May 31 were as follows:

	2010	2009
Discount rate, end of year	6.00%	6.90%
Initial healthcare cost trend rate	7.50%	7.00%
Ultimate healthcare cost trend rate	5.50%	5.50%
Year ultimate healthcare cost trend rate is reached	2014	2013

Net periodic postretirement benefit cost reported as expense in the statement of activities includes the following components:

		2010	2009
Service cost	$	232,812	238,135
Interest cost		661,519	630,010
Amortization of net actuarial loss		174,264	194,893
Amortization of prior service credit		(131,000)	(131,000)
Net periodic postretirement benefit cost	$	937,595	932,038

(Continued)

Weighted average assumptions used to determine net periodic postretirement benefit costs for the years ended May 31, 2010 and 2009 were as follows:

	2010	**2009**
Discount rate, beginning of year	6.90%	6.75%
Initial healthcare cost trend rate	7.00%	7.50%
Ultimate healthcare cost trend rate	5.50%	5.50%
Year ultimate healthcare cost trend rate is reached	2013	2013

Actuarial net loss and prior service cost that will be amortized over the next fiscal year is $240,416 and $412,000, respectively.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. It is estimated, based on actuarial calculations, that a 1% point change in the healthcare trend rate would have the following effects:

	2010	
	1-percentage-point increase	**1-percentage-point decrease**
Effect on total of service and interest cost components	$ 1,039	(1,092)
Effect on postretirement benefit obligation	17,286	(18,119)

	2009	
	1-percentage-point increase	**1-percentage-point decrease**
Effect on total of service and interest cost components	$ 730	(657)
Effect on postretirement benefit obligation	11,411	(10,272)

The benefits expected to be paid, net of the Medicare subsidy, by the University to its postretirement benefit plans in each of the subsequent fiscal years are as follows:

2011	$ 514,402
2012	528,017
2013	555,523
2014	579,820
2015	719,589
2016 – 2020	4,146,184

(Continued)

The expected benefits are based on the same assumptions used to measure the University's benefit obligation at May 31, 2010 and include estimated future employee services.

(13) Commitments and Contingencies

The University is involved in various claims and legal action arising in the ordinary course of business. In the opinion of management, the disposition of these matters will not have a material adverse effect on the University's financial position.

(14) Subsequent Events

The University evaluated subsequent events after the balance sheet date of May 31, 2010 through October 1, 2010, which was the date the financial statements were issued.

In July 2010, the University received a substantial return of property through a restitution agreement with a former employee who admitted to misappropriation of University funds over the period 1990-2010. The University is pursuing additional recovery for this defalcation through its insurance carriers, which recoveries, together with the restitution received, are expected to result in the recovery of most of the misappropriated funds.