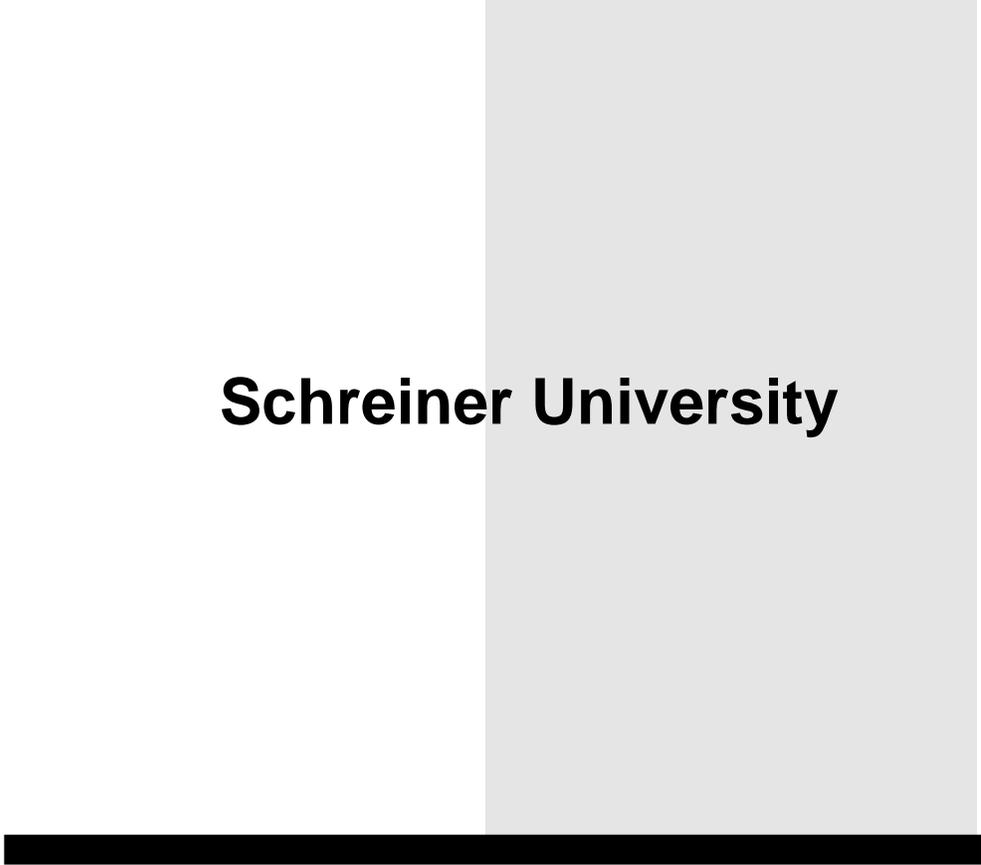


# **Schreiner University**

## **Financial Statements and Independent Auditors' Report Year ended May 31, 2010**



# **Schreiner University**

**Financial Statements and  
Independent Auditors' Report**  
Year ended May 31, 2010

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## Independent Auditors' Report

Board of Trustees of  
Schreiner University  
Kerrville, Texas

We have audited the accompanying statement of financial position of Schreiner 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 University's 2009 financial statements and in our report dated September 10, 2009 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Schreiner 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**BDO USA, LLP**

Dallas, Texas  
October 21, 2010

# Schreiner University

## Statements of Financial Position

<i>Years ended May 31,</i>	<b>2010</b>	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 380,987	\$ 249,592
Cash and cash equivalents restricted for capital improvements	524,327	1,812,563
Accounts receivable (less allowance for doubtful accounts of \$468,991 in 2010 and \$353,998 in 2009)	446,678	370,371
Prepaid expenses and other assets	623,016	517,662
Contributions receivable (less allowance for doubtful pledges of \$6,300 in 2010 and \$7,615 in 2009)	2,253,452	1,241,435
Contributions receivable from split-interest agreements	1,211,920	2,298,225
Investments, at fair value	36,028,160	29,530,937
Beneficial interests in trusts	10,576,805	9,844,794
Land, buildings and equipment, net	49,910,508	46,564,872
<b>Total assets</b>	<b>\$ 101,955,853</b>	<b>\$ 92,430,451</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 1,837,553	\$ 3,539,199
Deposits and deferred revenue	613,859	624,557
Capital lease obligation	8,924	39,200
Bonds and notes payable	11,672,467	10,366,253
Asset retirement obligation	162,212	152,742
<b>Total liabilities</b>	<b>14,295,015</b>	<b>14,721,951</b>
Commitments and contingencies		
<b>Net assets</b>		
Unrestricted	49,491,455	33,642,523
Temporarily restricted	3,933,184	3,487,118
Permanently restricted	34,236,199	40,578,859
<b>Total net assets</b>	<b>87,660,838</b>	<b>77,708,500</b>
<b>Total liabilities and net assets</b>	<b>\$ 101,955,853</b>	<b>\$ 92,430,451</b>

*See accompanying notes to financial statements.*

# Schreiner University

## Statement of Activities Year ended May 31, 2010 (With comparative totals for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
<b>Operating revenues, gains and other support</b>					
Tuition and fees	\$ 18,414,427	\$ -	\$ -	\$ 18,414,427	\$ 16,211,756
Tuition discounts	(5,406,115)	-	-	(5,406,115)	(4,209,628)
Grants	(1,817,071)	-	-	(1,817,071)	(1,755,902)
Net tuition and fees	11,191,241	-	-	11,191,241	10,246,226
Private gifts and grants	2,446,051	548,585	-	2,994,636	1,852,896
Endowment income used for current operations	1,906,841	40,512	-	1,947,353	1,928,430
Dividends and interest on non-endowment investments	3,605	-	-	3,605	4,007
Other income	1,106,522	-	-	1,106,522	672,921
Auxiliary enterprises	6,105,646	-	-	6,105,646	5,249,773
Net assets released from restrictions for satisfaction of program restrictions	991,491	(991,491)	-	-	-
Total operating revenues, gains and other support	23,751,397	(402,394)	-	23,349,003	19,954,253
<b>Operating expenses</b>					
Instructional	5,907,202	-	-	5,907,202	5,685,322
Academic support	1,250,930	-	-	1,250,930	1,287,330
Student services	3,689,894	-	-	3,689,894	3,314,570
Institutional support	4,808,178	-	-	4,808,178	4,435,823
Auxiliary enterprises	3,862,760	-	-	3,862,760	3,542,776
Total operating expenses	19,518,964	-	-	19,518,964	18,265,821
Change in net assets from operating activities	4,232,433	(402,394)	-	3,830,039	1,688,432
<b>Non-operating</b>					
Depreciation and amortization	(2,033,852)	-	-	(2,033,852)	(1,598,196)
Endowment earnings in excess of amounts designated for current operations	-	-	3,081	3,081	3,490
Gain (loss) on beneficial interests in trusts	-	-	732,012	732,012	(2,683,396)
Net realized and unrealized gains (losses) on investments	3,739,684	1,347,993	-	5,087,677	(6,471,390)
Change in value of split-interest agreements	-	23,223	23,038	46,261	(433,732)
Net assets released from restrictions for plant purposes	1,345,801	(1,345,801)	-	-	-
Reclassification of endowment from permanently restricted to board restricted	7,331,416	-	(7,331,416)	-	-
Gifts	1,233,450	823,045	230,625	2,287,120	3,218,599
Change in net assets from non-operating activities	11,616,499	848,460	(6,342,660)	6,122,299	7,964,625
Change in net assets	15,848,932	446,066	(6,342,660)	9,952,338	(6,276,193)
Net assets at beginning of year	33,642,523	3,487,118	40,578,859	77,708,500	83,984,693
Net assets at end of year	\$ 49,491,455	\$ 3,933,184	\$ 34,236,199	\$ 87,660,838	\$ 77,708,500

See accompanying notes to financial statements.

# Schreiner University

## Statements of Cash Flows May 31, 2010

<i>Years ended May 31,</i>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 9,952,338	\$ (6,276,193)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,033,852	1,598,196
Accretion of asset retirement obligation	9,470	8,917
(Gain) Loss on beneficial interests in trusts	(732,012)	2,683,396
Change in value of split-interest agreements	(46,261)	433,732
Net realized and unrealized (gains) losses on investments	(5,087,677)	6,471,390
Loss on disposal of equipment	11,386	50,756
Changes in operating assets and liabilities:		
Accounts receivables	(76,307)	7,071
Contributions receivable	953,665	4,136,981
Prepaid expenses and other assets	(118,258)	83,155
Accounts payable and accrued liabilities	(1,701,646)	2,090,698
Deposits and deferred revenue	(10,698)	268,150
Gifts restricted for:		
Endowment	(241,101)	(862,907)
Plant	(823,045)	(2,226,905)
Net cash provided by operating activities	<b>4,123,706</b>	<b>8,466,437</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(4,887,946)	(2,526,259)
Proceeds from sale of investments	3,478,399	518,583
Purchase of land, buildings and equipment	(5,377,971)	(14,953,107)
Change in cash and cash equivalents restricted for capital improvements	1,288,236	7,342,625
Net cash used in investment activities	<b>(5,499,282)</b>	<b>(9,618,158)</b>

# Schreiner University

## Statements of Cash Flows May 31, 2010

	2010	2009
<b>Cash flows from financing activities</b>		
Payments from gifts restricted for:		
Endowment	\$ -	\$ 16,800
Plant	231,033	2,606,437
Payments on bonds and notes payable	(4,825,759)	(7,893,737)
Proceeds from bonds and notes payable	6,131,973	6,598,107
Principal payments on capital lease obligations	(30,276)	(111,857)
Net cash provided by financing activities	1,506,971	1,215,750
<b>Increase in cash and cash equivalents</b>	131,395	64,029
<b>Cash and cash equivalents at beginning of year</b>	249,592	185,563
<b>Cash and cash equivalents at end of year</b>	\$ 380,987	\$ 249,592
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 486,533	\$ 538,120

*See accompanying notes to financial statements.*

# Schreiner University

## Notes to Financial Statements

- 1. Nature of Operations** Schreiner University (the University) is a Texas non-profit corporation located in Kerrville, Texas. The University is independently governed and related by choice and by covenant to the Presbyterian Church (USA). A co-educational institution, the University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The University provides baccalaureate programs based in liberal knowledge from the humanities, the natural sciences, and the social sciences and graduate programs at the masters level in education. In addition, baccalaureate programs in business are provided. The University has an enrollment of approximately 1,000 students.
  
- 2. Summary of Significant Accounting Policies** Basis of Presentation - The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). The University's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

  - Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets for general or specific purposes. Such assets include the University's permanent endowment funds.
  - Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met by actions of the University pursuant to those stipulations or that expire by the passage of time.
  - Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

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. Contributions with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Contributions and endowment income with donor-imposed restrictions that are not met in the same year as received or earned are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restriction is satisfied.

# Schreiner University

## Notes to Financial Statements

Cash and Cash Equivalents - The University considers all highly liquid short-term investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents invested for long-term purposes are presented separately.

The University maintains cash and cash equivalents at financial institutions, which at times may not be federally insured or may exceed federally insured limits. The University has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts.

Accounts Receivable - The University's accounts receivable are primarily due from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts inactive for more than six months are considered past due. The University determines its allowance based on inactive accounts. The University writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes.

Contributions - Contributions received, including unconditional promises to give, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Contributions that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, contributions with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Conditional promises are recorded when the conditions are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

Contributions from Split-Interest Agreements - The University has entered into charitable remainder trust agreements whereby the trustee pays annual benefits from the trust's assets over the term of the trust to third party beneficiaries with

# Schreiner University

## Notes to Financial Statements

remaining trust assets at the end of the trust's term being distributed to the University. For irrevocable charitable remainder trusts, the University recognizes a contribution receivable equal to the present value of estimated future cash flows expected to be received by the University. Changes in the excess or deficiency of trust income over amounts paid to beneficiaries, as well as changes in the calculated liability due to increases or decreases in the actuarially determined life expectancy of beneficiaries other than the University, are reflected as change in value of split-interest agreements in the statement of activities. To calculate the present value of the liabilities, life expectancy tables with discount rates ranging from 5.0% to 10.8% were used.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investments in Texas Presbyterian Foundation Balanced Fund are recorded at fair value as determined by Texas Presbyterian Foundation based on the value of the underlying securities. Real estate and partnership interests are recorded at their estimated fair value when received. Notes receivable are recorded at their estimated net realizable values. Cash and cash equivalents held in transition for investments are included in investments. Net realized and unrealized gains and losses on investments are reported in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

Beneficial Interests in Trusts - Beneficial interests in trusts represent resources neither in the possession nor under the control of the University, but paid and administered by outside trustees, with the University deriving income or residual interest from the assets of such funds. Beneficial interests in trusts are recognized at the estimated fair value of the underlying assets in the statement of financial position.

Revocable Trusts - The University has a remainder interest in various revocable trust agreements. Assets held under such agreements are subject to withdrawal at the request of the donor. Accordingly, these agreements are not recorded in the University's financial statements.

# Schreiner University

## Notes to Financial Statements

Land, Buildings and Equipment - Land, buildings and equipment are stated at cost if purchased or fair value at date of donation and are depreciated using the straight-line method using the useful lives listed below:

	Estimated Useful Life
Buildings	45 years
Land improvements	20 years
Equipment	7 years
Library books	7 years
Furniture and fixtures	7 years
Computer server	7 years
Vehicles	4 years
Computer equipment and software	3-4 years

The University capitalizes items in excess of \$500 with a useful life of at least three years.

Impairment of Long-Lived Assets - At each reporting date, the University evaluates the carrying amount of its long-lived assets. In the event that facts and circumstances indicate that the cost of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation of impairment is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying value to determine if an adjustment to fair value or discounted cash flow value is required. No impairment was required in 2010 or 2009.

Deposits and Deferred Revenue - Summer tuition and fees received are deferred and recognized during the period in which the courses are provided. Tuition and fees revenue is reduced for scholarship discounts and allowances in the statement of activities. A scholarship discount and allowance is defined as the difference between the stated charge for tuition, goods and services provided by the University and the amount that is paid by the student and or third parties making payments on behalf of the student.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

# Schreiner University

## Notes to Financial Statements

Measure of Operation - The University has adopted an intermediate measure of operations. The operating activities of the University include all current income and expenses related to carrying out its mission of educating students. Nonoperating activities include depreciation and amortization, net realized and unrealized gains or losses on investments, changes in the value of split-interest agreements and beneficial interests in trusts, donations of a permanent nature to be used by the University to generate a return that will support operations and the release of temporary restrictions on net assets to be used for long-term purposes.

Fundraising - Expenses incurred in carrying out the fundraising activities of the University, which amounted to approximately \$630,000 and \$605,000 for the years ended May 31, 2010 and 2009, respectively, are included primarily in institutional support expense in the statement of activities.

Advertising - The University's advertising expenditures are generally expensed as incurred. Advertising expense was approximately \$218,000 and \$196,000 for the years ended May 31, 2010 and 2009, respectively.

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

Comparative Financial Statements - The financial statements include certain prior-year summarized comparative information in total but not by net asset class in the statement of activities. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. 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.

# Schreiner University

## Notes to Financial Statements

3. **Accounts Receivable** The University's accounts receivable relate to tuition and fees for student attendance.

Changes in the University's allowance for doubtful accounts for the years ended May 31 are as follows:

	2010	2009
Beginning balance	\$ 353,998	\$ 321,503
Bad debt provision	122,328	38,022
Accounts written off	(7,335)	(5,527)
Ending balance	\$ 468,991	\$ 353,998

4. **Contributions Receivable** Contributions receivable, by purpose, consist of the following unconditional promises to give at May 31:

	2010	2009
Operations	\$ 1,754,040	\$ 469,175
Capital improvements	397,543	628,576
Endowment	53,970	69,317
Other	74,500	106,000
	2,280,053	1,273,068
Less unamortized discount at rates ranging from 4.46% and 5.01%	20,301	24,018
	2,259,752	1,249,050
Less allowance for doubtful pledges	6,300	7,615
	\$ 2,253,452	\$ 1,241,435

# Schreiner University

## Notes to Financial Statements

The maturity of contributions receivable at May 31, 2010 is as follows:

	<b>2010</b>
Less than one year	\$ 1,983,647
One to five years	269,805
	<b>\$ 2,253,452</b>

**5. Financial Instruments and Fair Value**

US GAAP defines fair value and establishes a framework for measuring fair value. Various inputs are used in determining fair value measurements. A summary of the fair value hierarchy and the inputs are described below:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include publicly-traded mutual funds, corporate stocks and equity securities and that are actively traded on a major exchange or over-the-counter market.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded and for which certain significant inputs are observable, either directly or indirectly, such as benchmark interest rates and yield curves and/or securities indices.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

# Schreiner University

## Notes to Financial Statements

The University's financial instruments are measured as follows:

### Texas Presbyterian Foundation Balance Fund

The University has investments held by the Texas Presbyterian Foundation (TPF). TPF invests in a variety of investment securities through investment funds. These funds are invested in Large Cap Equity securities, International Equity securities, Small Cap Equity securities and fixed income securities. These funds are classified by TPF as follows:

Fair value of equity securities reported as level 2 consists of investments in public investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified within level 2 of the valuation hierarchy because the NAV's unit price is not quoted on an active market, however the unit price is based on underlying investments which are traded on an observable active market.

Fair value of fixed income securities reported as level 2 consists of sovereign government bonds and corporate bonds. The fair value of sovereign government bonds is generally based on quoted prices. When quoted prices are not available, fair value is determined based on a valuation model that uses inputs that include interest-rate yield curves, cross-currency-basis index spreads, and country credit spreads similar to the bond in terms of issuer, maturity and seniority. The fair value of corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. The spread data used are for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used.

### Beneficial Interest in Trusts

The University is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the University. The assets are carried at fair value of the underlying assets which is based on quoted prices, therefore their fair valuation is based on observable inputs and are classified as level 2 within the fair value hierarchy.

# Schreiner University

## Notes to Financial Statements

Contributions from Split-Interest Agreements - The University has entered into charitable remainder trust agreements. For irrevocable charitable remainder trusts, the University recognizes a contribution receivable equal to the present value of estimated future cash flows expected to be received by the University. Given the fact that these receivables do not have quoted market prices and are not actively traded, their fair valuation is based on level 3 inputs within the hierarchy used in measuring fair value.

Below sets forth a table of financial instruments that are re-measured to fair value each reporting period and their fair value as of May 31, 2010.

Description	Fair value measurement at reporting date using			Balances as of May 31, 2010
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Unobservable inputs (level 3)	
<b>Financial Assets:</b>				
Equity securities	\$ 3,999,235	\$ -	\$ -	\$ 3,999,235
Fixed income securities	4,325,717	-	-	4,325,717
Cash and cash equivalents held as long-term investment	98,708	-	-	98,708
Texas Presbyterian Foundation Balance Fund	-	24,859,501	-	24,859,501
Contributions receivable from Split Interest Agreements	-	-	1,211,920	1,211,920
Partnership interest	-	-	113,100	113,100
Beneficial Interest in Trusts	-	10,576,805	-	10,576,805
<b>Total</b>	<b>\$ 8,423,660</b>	<b>\$ 35,436,306</b>	<b>\$ 1,325,020</b>	<b>\$ 45,184,986</b>
<b>Financial Liability:</b>				
Interest Rate Swap	\$ -	\$ (318,831)	\$ -	\$ (318,831)

# Schreiner University

## Notes to Financial Statements

Below sets forth a table of financial instruments that are re-measured to fair value each reporting period and their fair value as of May 31, 2009.

Description	Fair value measurement at reporting date using			Balances as of May 31, 2009
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Unobservable inputs (level 3)	
<b>Financial Assets:</b>				
Equity securities	\$ 1,742,078	\$ -	\$ -	\$ 1,742,078
Fixed income securities	2,141,624	-	-	2,141,624
Cash and cash equivalents held as long-term investment	794,954	-	-	794,954
Texas Presbyterian Foundation Balanced Pooled Fund	-	20,337,506	-	20,337,506
Contributions receivable from Split Interest Agreements	-	-	2,097,846	2,097,846
Partnership interest	-	-	113,100	113,100
Beneficial Interest in Trusts	-	9,844,794	-	9,844,794
<b>Total</b>	<b>\$ 4,678,656</b>	<b>\$ 30,182,300</b>	<b>\$ 2,210,946</b>	<b>\$ 37,071,902</b>
<b>Financial liability</b>				
Interest Rate Swap	\$ -	(298,390)	\$ -	\$ (298,390)

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2010 are as follows:

	Beginning Balance	Unrealized Gains or Losses	New Gifts or Purchases	Sales and Withdrawals	Ending Balance
Contributions receivable from split interest agreements	\$2,097,846	\$ 46,261	\$ 567,825	\$(1,500,012)	\$1,211,920
Partnership interest	113,100	-	-	-	113,100
<b>Total</b>	<b>\$2,210,946</b>	<b>\$ 46,261</b>	<b>\$ 567,825</b>	<b>\$(1,500,012)</b>	<b>\$1,325,020</b>

# Schreiner University

## Notes to Financial Statements

**6. Investments** Investments consist of the following at May 31:

	2010	2009
Equity securities	\$ 3,999,235	\$ 1,742,078
Fixed income securities	4,325,717	2,141,624
Texas Presbyterian Foundation		
Balanced Fund	24,859,501	20,337,506
Real estate	2,203,537	3,856,566
Notes receivable	209,696	217,109
Mineral Interests	218,666	328,000
Partnership interests	113,100	113,100
Cash and cash equivalents held as long-term investment	98,708	794,954
<b>Total investments</b>	<b>\$ 36,028,160</b>	<b>\$ 29,530,937</b>

The Texas Presbyterian Foundation (“TPF”) Balanced Fund is a “fund of funds” with a policy allocation as follows:

36% TPF Large Cap Equity Fund  
 14% TPF International Equity Fund  
 5% TPF Emerging Markets Fund  
 12% TPF Small Cap Equity Fund  
 30% TPF Fixed Income Fund  
 2% TPF Real Estate Fund  
 1% Oil & Gas

The following summarizes investment return for the years ended May 31:

	2010	2009
Dividend, interest and other income	\$ 1,954,039	\$ 1,935,927
Net realized gains (loss) on sales of investments	2,729,944	(27,895)
Net unrealized gains (loss) on investments	2,357,733	(6,443,495)
	<b>\$ 7,041,716</b>	<b>\$ (4,535,463)</b>

# Schreiner University

## Notes to Financial Statements

Investment return is reported as follows for the years ended May 31:

	2010	2009
<b>Operating:</b>		
Dividends and interest on non-endowment investments	\$ 3,605	\$ 4,007
Dividends and interest included in endowment income used for current operations	1,306,704	1,309,590
Other income included in endowment income used for current operations	640,649	618,840
<b>Total operating investment return</b>	<b>1,950,958</b>	1,932,437
<b>Non-operating:</b>		
Net realized and unrealized gains (losses) on investments	5,087,677	(6,471,390)
Endowment earnings in excess of amounts designated for current operations	3,081	3,490
<b>Total non-operating investment return</b>	<b>5,090,758</b>	(6,467,900)
	<b>\$ 7,041,716</b>	<b>(4,535,463)</b>

# Schreiner University

## Notes to Financial Statements

**7. Beneficial Interest in Trusts** Beneficial interest in trusts consist of the following at May 31:

	2010	
	Fair Value	Income Distributed
Cailloux Family Foundation (JP MorganChase)	\$ 6,091,354	\$ 400,000
Gus Schreiner Trust Number One (Bank of America, NA.)	3,311,003	174,061
Miller Fund (Texas Presbyterian Foundation)	222,356	12,542
Cocke Fund (Texas Presbyterian Foundation)	202,098	11,400
Wynne Fund (Texas Presbyterian Foundation)	276,635	15,604
Other trusts (Texas Presbyterian Foundation)	473,359	27,042
	<b>\$ 10,576,805</b>	<b>\$ 640,649</b>
	2009	
	Fair Value	Income Distributed
Cailloux Family Foundation (JP MorganChase)	\$ 5,722,514	\$ 400,000
Gus Schreiner Trust Number One (Bank of America, NA.)	3,047,182	149,967
Miller Fund (Texas Presbyterian Foundation)	203,809	12,822
Cocke Fund (Texas Presbyterian Foundation)	185,241	11,654
Wynne Fund (Texas Presbyterian Foundation)	253,560	15,952
Other trusts (Texas Presbyterian Foundation)	432,488	28,445
	<b>\$ 9,844,794</b>	<b>\$ 618,840</b>

# Schreiner University

## Notes to Financial Statements

The increase (decrease) in the fair value of the trusts is recorded as a gain (loss) on beneficial interests in trusts on the statement of activities and the distributed income is included in endowment income used for current operations on the statement of activities.

**8. Land, Buildings and Equipment**

Land, buildings and equipment consist of the following at May 31:

	<b>2010</b>	2009
Land improvements	<b>\$ 13,401,137</b>	\$ 10,196,443
Buildings	<b>50,706,837</b>	35,775,266
Equipment and vehicles, library books, and computer equipment and software	<b>13,324,962</b>	12,044,111
	<b>77,432,936</b>	58,015,820
Less accumulated depreciation and amortization	<b>27,887,085</b>	26,278,570
	<b>49,545,851</b>	31,737,250
Land	<b>126,899</b>	126,899
Construction in progress	<b>237,758</b>	14,700,723
	<b>\$ 49,910,508</b>	\$ 46,564,872

The University leases office equipment under various noncancellable operating lease agreements that expire through September 2014. Lease expense was approximately \$241,191 and \$268,131 for 2010 and 2009, respectively. Future annual minimum lease payments due under these lease agreements as of May 31 are as follows:

2011	<b>\$ 229,729</b>
2012	<b>149,758</b>
2013	<b>54,499</b>
2014	<b>12,120</b>
	<b>\$ 446,106</b>

# Schreiner University

## Notes to Financial Statements

<b>9. Bonds and Notes Payable</b>	Bonds and notes payable consist of the following at May 31:		
	<i>May 31,</i>	<b>2010</b>	2009
	<hr/>		
	Tax exempt bonds used for construction, interest at 5.15%, quarterly principal and interest payments of \$122,537 through June 2017. The bonds are collateralized by all income and payments from Gus Schreiner Trust Number One, certain real property located in Kerr County, Texas and contributions receivable.	<b>\$ 2,949,926</b>	\$ 3,277,539
	Revolving credit line \$(2,000,000) with a bank, interest at LIBOR plus 2.20% (2.21% and 2.32% at May 31, 2010 and 2009, respectively), and quarterly interest payments, principal due October 2010. The line is collateralized by all income and payments from Gus Schreiner Trust Number One, certain real property located in Kerr County, Texas and contributions receivable.	<b>200,000</b>	1,300,000
	Texas Dormitory Financial Authority, Inc. revenue note, interest at 6.50%, quarterly principal payments of \$66,667 plus interest through July 2013. The notes are cross-collateralized and cross-defaulted to the revolving line of credit.	<b>531,439</b>	798,106
	Bank of America marketing loan, interest at LIBOR plus 2.20% (2.21% and 2.32% at May 31, 2010 and 2009, respectively), quarterly interest payments, principal due June 2009. The notes are cross-collateralized and cross-defaulted to revolving line of credit.	-	50,000

# Schreiner University

## Notes to Financial Statements

9. Bonds and Notes Payable – continued	<i>May 31,</i>	2010	2009
	Bank of America maintenance facility loan, interest at LIBOR plus 2.20% (2.21% and 2.32% at May 31, 2010 and 2009, respectively), quarterly interest payments, principal due May 2020. The notes are cross-collateralized and cross-defaulted to revolving line of credit.	600,000	660,000
	Tax exempt bonds used for construction, variable interest at a BBA LIBOR plus applicable margin, monthly principal and interest payments of \$28,670 through February 2028. The bonds are collateralized by all income and payments from Gus Schreiner Trust Number One, certain real property located in Kerr County, Texas and contributions receivable. Includes interest rate swap liability of \$318,831.	3,957,581	4,142,140
	Tax exempt bonds used for construction, variable interest at a BBA LIBOR plus applicable margin (2.21% and 2.19% as of May 31, 2010 and 2009, respectively), with monthly interest payments. Principal due December 22, 2019.	3,433,521	138,468
		<b>\$ 11,672,467</b>	<b>\$ 10,366,253</b>

# Schreiner University

## Notes to Financial Statements

Aggregate future maturities of bonds and notes payable at May 31, 2010 are summarized below:

2011	\$ 1,289,457
2012	1,105,666
2013	859,947
2014	880,002
2015	901,109
Thereafter	6,636,286
	<b>\$ 11,672,467</b>

The University entered into an interest rate swap agreement for its variable rate tax exempt bonds fixing the interest rate at 5.34%. This agreement is marked to market each reporting period. As of May 31, 2010 the University had a liability of \$318,831 related to this agreement, which has been included in the balance of the bonds.

Certain bonds and notes require the University to comply with certain covenants. The most significant covenants include maintaining a current maturity coverage ratio and liquidity ratio. The University was in compliance with its debt covenants as of May 31, 2010. Interest expense of approximately \$486,000 and \$538,000 was incurred in 2010 and 2009.

### 10. Capital Lease Obligations

The University leases buildings, improvements, equipment and computer equipment under capital leases. The following is a summary of the leased assets included in land, buildings and equipment at May 31:

<i>May 31,</i>	<b>2010</b>	2009
Buildings	\$ 33,591	\$ 33,591
Improvements	96,884	96,884
Equipment and vehicles	41,868	41,868
Computer equipment	391,592	391,592
	<b>563,935</b>	563,935
Less accumulated amortization	<b>563,935</b>	488,530
	<b>\$ -</b>	<b>\$ 75,405</b>

# Schreiner University

## Notes to Financial Statements

Aggregate future payments on capital lease obligations at May 31 are summarized below:

	<b>2010</b>
2011	\$ <b>10,655</b>
Less interest	<b>1,731</b>
	<b>\$ 8,924</b>

### 11. Restricted Net Assets

Restricted net assets consist of the following at May 31:

<i>May 31,</i>	<b>2010</b>	2009
Temporarily restricted:		
Scholarships and departmental programs and activities	\$ <b>1,751,305</b>	\$ 2,100,436
Undistributed endowment earnings	<b>1,466,339</b>	96,690
Building and improvements	<b>715,540</b>	1,289,992
	<b>\$ 3,933,184</b>	\$ 3,487,118

Permanently restricted:

Endowment for scholarships and departmental programs and activities	\$ <b>34,236,199</b>	\$ 40,578,859
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### 12. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows for the year ended May 31:

	<b>2010</b>	2009
Instructional	\$ <b>4,033</b>	\$ 33,989
Student services	<b>85,092</b>	35,280
Institutional support	<b>902,366</b>	97,366
Financial Aid	-	57,994
	<b>\$ 991,491</b>	\$ 224,629
Plant purposes	<b>\$ 1,345,801</b>	\$ 2,279,251

# Schreiner University

## Notes to Financial Statements

- 13. Endowment** The University's endowment consists of individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

The University treats all donor-restricted endowment funds as permanently restricted net assets. These endowment funds are invested in a pool with all other investments of the University. The returns on the endowment funds invested have been included in temporarily restricted investment income on the statement of activities. The University operates under an enacted version of UPMIFA since the Texas State Legislature enacted UPMIFA on September 1, 2007 (TUPMIFA). The Board of Trustees has interpreted TUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified 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 TUPMIFA.

# Schreiner University

## Notes to Financial Statements

The following table represents the changes in endowment net assets at May 31:

	Non- Endowment Investment Return Allocations	Total Endowment			Total
		Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, May 31, 2008	\$ -	\$ 2,299,053	\$ 2,585,526	\$ 42,673,952	\$ 47,558,531
Investment Return	(3,219,784)	(317,983)	(997,696)	-	(4,535,463)
Change in value of split-interest agreements	-	-	-	(278,093)	(278,093)
Change in Beneficial Interest in trust	-	-	-	(2,683,396)	(2,683,396)
Endowment earnings in excess of amounts designated	-	-	-	3,490	3,490
Contributions and board designated endowment	-	60,150	-	862,906	923,056
Amounts appropriated for expenses	-	(109,116)	(1,491,140)	-	(1,600,256)
Endowment net assets, May 31, 2009	\$ (3,219,784)	\$ 1,932,104	\$ 96,690	\$ 40,578,859	\$ 39,387,869
Investment return	1,735,205	392,548	3,107,392	-	5,235,145
Change in value of split-interest agreements	-	-	23,223	23,038	46,261
Change in Beneficial Interest in trust	-	-	-	732,012	732,012
Endowment earnings in excess of amounts designated	-	-	-	3,081	3,081
Contributions and board designated endowment	-	-	-	230,625	230,625
Amounts appropriated for expenses	-	(454,761)	(1,760,966)	-	(2,215,727)
Transfers in/out of board designated endowment	-	1,118,256	-	-	1,118,256
Reclassification	-	7,331,416	-	(7,331,416)	-
Endowment net assets, May 31, 2010	\$ (1,484,579)	\$ 10,319,563	\$ 1,466,339	\$ 34,236,199	\$ 44,537,522

# Schreiner University

## Notes to Financial Statements

### Endowment Net Asset Composition by Type of Fund as of May 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (1,484,579)	\$ 1,466,339	\$ 34,236,199	\$ 34,217,959
Board designated endowments	10,319,563	-	-	10,319,563
Endowment net assets, May 31, 2010	\$ 8,834,984	\$ 1,466,339	\$ 34,236,199	\$ 44,537,522

### *Funds with Deficiencies*

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the University to retain as a fund of perpetual duration. At May 31, 2010, donor-restricted endowments with an aggregate principal amount of \$25,051,085 had underlying assets with a fair value of \$23,566,506, a deficiency of \$1,484,579. At May 31, 2009, donor-restricted endowments with an aggregate principal amount of \$27,094,495 had underlying assets with a fair value of \$23,114,892, a deficiency of \$3,979,603. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

### *Return Objectives and Risk Parameters*

The University has invested its endowment assets in a manner that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results the performance of a policy index based upon the strategic asset allocation of the assets to various broad asset classes. Specifically, performance in achieving benchmarks based on policy indices such as the Russell 100 Value Index for large capitalization equities, the Russell 2000 Index for the small capitalization equities, the MSCI EAFE Index for international equities, and the Barclays Capital Aggregate Bond Index for fixed income investments. Comparisons will be based on annualized total rates of return over a three to five year period, net of costs and fees. Total return is dividend or interest income plus realized and unrealized capital appreciation or depreciation at fair market value.

# Schreiner University

## Notes to Financial Statements

### *Spending Policies of the Endowments*

The University allocates the investment income generated by the endowment each year based on the purpose of the endowment based on the donor's request. If the donor does not specify a purpose of the income generated from their permanently restricted endowment, the income is used for general support. The University has adopted a spending policy for its investments managed by the Texas Presbyterian Foundation ("TPF") in order to maximize current and long-term investments. The spending policy sets forth the income to be distributed from those investments currently for spending with the provision that any amounts remaining after the distribution be reinvested. The board of trustees has authorized a policy permitting the use of total return at a rate (spending rate) of approximately five percent, based on a three- year moving average market value of the TPF funds.

Since the spending policy is based on the total return concept, earnings from realized and unrealized gains may also be utilized when current year income from interest and dividends is less than the authorized amount. Additionally, if the TPF funds do not earn five percent in a given year, accumulated excess earnings could be used as long as the funds are spent in accordance with donor and legal restrictions.

### *Reclassification*

Management determined that certain endowments that were previously classified as permanently restricted should be classified as unrestricted. The effect of these reclassifications on the statement of financial position for 2009 amounted to \$7,331,416.

#### **14. Retirement Plan**

The University maintains a defined contribution retirement plan under which the University contributes 6% of the employee's salary. The plan is open to all eligible employees who have completed one year of continuous service. During fiscal years 2010 and 2009, the University contributed approximately \$368,000 and \$331,000 respectively.

# Schreiner University

## Notes to Financial Statements

### 15. Functional Expenses

Costs related to the operation and maintenance of physical plant, including depreciation and amortization, of plant assets, are allocated to program and supporting activities based upon the square footage of utilized facilities. The following represents the allocation of operation and maintenance of physical plant and depreciation and amortization to the functional categories for the years ending May 31:

<b>2010</b>					
	Current Operating Expenses	Operation and Maintenance of Plant	Total Operating Expenses	Depreciation and Amortization	Total Expenses
Instructional	\$ 5,395,222	\$ 511,980	\$ 5,907,202	\$ 455,507	\$ 6,362,708
Academic support	1,111,520	139,410	1,250,930	124,034	1,374,964
Student services	3,302,059	387,835	3,689,894	345,058	4,034,952
Institutional support	4,764,765	43,413	4,808,178	38,625	4,846,803
Auxiliary expenses	2,659,403	1,203,357	3,862,760	1,070,628	4,933,388
	<b>\$ 17,232,969</b>	<b>\$ 2,285,995</b>	<b>\$ 19,518,964</b>	<b>\$2,033,852</b>	<b>\$ 21,552,815</b>

<b>2009</b>					
	Current Operating Expenses	Operation and Maintenance of Plant	Total Operating Expenses	Depreciation and Amortization	Total Expenses
Instructional	\$ 5,134,737	\$ 550,585	\$ 5,685,322	\$ 424,565	\$ 6,109,887
Academic support	1,135,106	152,224	1,287,330	117,383	1,404,713
Student services	3,026,802	287,768	3,314,570	221,903	3,536,473
Institutional support	4,388,419	47,404	4,435,823	36,554	4,472,377
Auxiliary expenses	2,508,183	1,034,593	3,542,776	797,791	4,340,567
	<b>\$ 16,193,247</b>	<b>\$ 2,072,574</b>	<b>\$ 18,265,821</b>	<b>\$ 1,598,196</b>	<b>\$ 19,864,017</b>

# Schreiner University

## Notes to Financial Statements

- 16. Tax Exempt Status** The University is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University had no sources of unrelated business income and accordingly, no provision has been made for federal income tax. In addition, the IRS has determined that the University is not a private foundation. However, the University may be subject to income taxes on unrelated business income that is derived from activities not in furtherance of the purposes for which it was granted exemption. The University recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The University has elected to recognize accrued interest and penalties related to income tax matters, if they occur, as a component of income tax expense. Management believes that there are no significant uncertain tax positions as of May 31, 2010.
- 17. Commitments and Contingencies** In conducting its activities, the University from time to time is the subject of various claims arising from the ordinary course of business. In the opinion of management, the ultimate resolution of such claims is not expected to have a material adverse effect upon the financial position or changes in net assets of the University.
- 18. Asset Retirement Obligations** Asset retirement obligations are primarily related to the encapsulated structural flooring, ceiling, and fireproofing that is not subject to abatement remediation unless the buildings are demolished or undergo major renovations or repairs. The ARO's arise from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. Facilities with asbestos are appropriately managed by the University in accordance with current laws and regulations and the University would remediate only if it performed major renovations of certain existing buildings.

Changes in the asset retirement obligation during the year are as follows:

Balance as of May 31, 2009	\$	152,742
Accretion expense		9,470
Balance as of May 31, 2010	\$	162,212

# Schreiner University

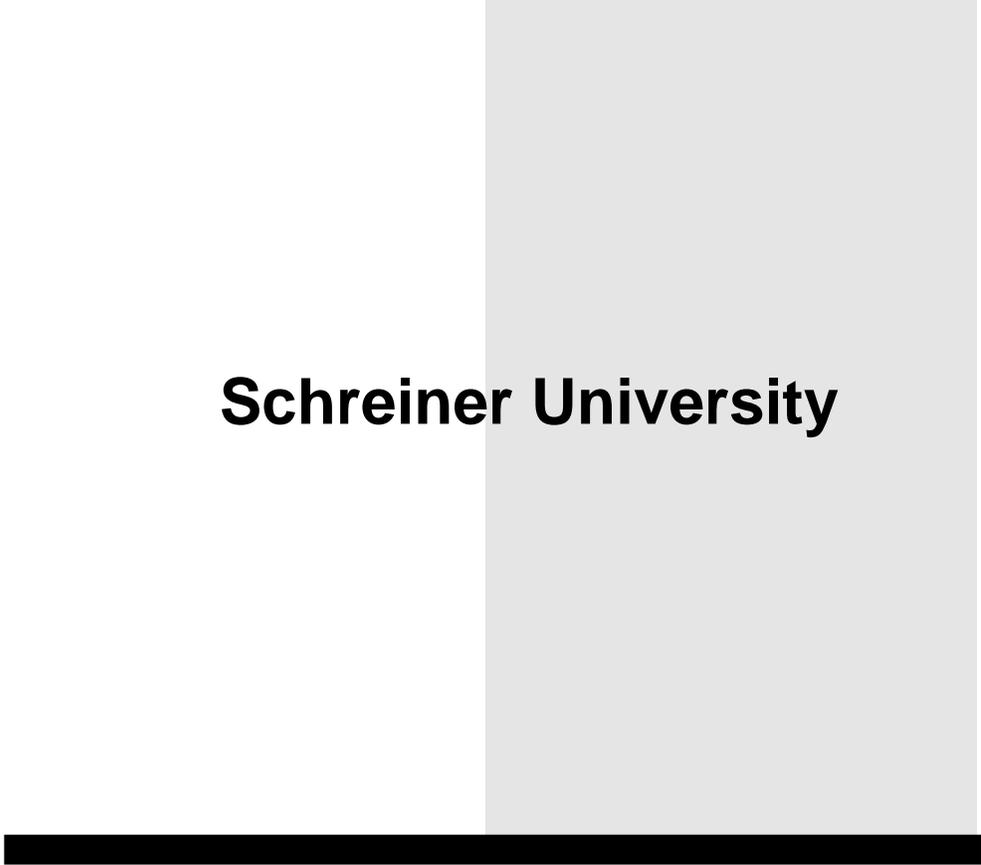
## Notes to Financial Statements

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- 19. Subsequent Events**      The University has evaluated all subsequent events through October 21, 2010, the date these financial statements were available to be issued.

# **Schreiner University**

**Federal Financial  
Assistance Programs  
Year Ended May 31, 2010**



# **Schreiner University**

**Federal Financial  
Assistance Programs**  
Year Ended May 31, 2010

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# **Part I - Financial**

# Schreiner University

## Schedule of Expenditures of Federal Awards Year Ended May 31, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through University Identifying Number	Federal Expenditures
<b>U. S. Department of Education</b>			
Student Financial Aid Cluster			
Federal Family Education Loan Program	84.032	N/A	
Subsidized Stafford loans			\$ 2,584,039
Unsubsidized Stafford loans			3,339,372
Parents' Loans for Undergraduate Students			847,038
Total noncash financial assistance			6,770,449
Federal Pell Grant Program	84.063	N/A	1,787,680
Federal Supplemental Educational Opportunity Grant	84.007	N/A	64,119
Federal Work-Study Program	84.033	N/A	68,170
Natural Science and Mathematics Access to Retain Talent Grant (SMART)	84.376	N/A	58,000
Teach Grant			4,000
Byrd Scholarship	84.185	N/A	1,500
Academic Competitiveness Grant (ACG)	84.375	N/A	91,875
<b>Total U.S. Department of Education - Student Financial Aid Cluster</b>			<b>8,845,793</b>
<b>Pass-through programs from Texas Higher Education</b>			
<b>Coordinating Board</b>			
Leveraging Educational Assistance Partnership	84.069A	781	1,622
Supplemental Leveraging Educational Assistance Partnership	84.069B	781	1,962
			3,584
Total federal expenditures			\$ 8,849,377

*See accompanying notes to schedule.*

## Notes to Schedule of Expenditures of Federal Awards

- 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Schreiner University (the University) for the fiscal year ending May 31, 2010 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
- 2. Noncash Financial Assistance**

The University is involved in various programs for which federal financial assistance is provided to the University's students or students' parents in the form of loan guarantees; such programs do not involve a cash outlay of federal funds received by the University. The University aids in determining, among other things, the eligibility of students to participate in these programs and provides documentation to the Institutions providing the federal financial assistance to the students.

## **Part II – Internal Controls and Compliance Reports**



## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Trustees  
Schreiner University  
Kerrville, Texas

We have audited the financial statements of Schreiner University (the "University") as of and for the year ended May 31, 2010, and have issued our report thereon dated October 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated October 21, 2010.

This report is intended solely for the information and use of management, those charged with governance, others within the University, the United States Department of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

**BDO USA, LLP**

Dallas, Texas  
October 21, 2010



## **Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

Board of Trustees  
Schreiner University  
Kerrville, Texas

### **Compliance**

We have audited the compliance of Schreiner University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2010. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, Schreiner University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2010.

### **Internal Control Over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered



the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Schreiner University as of and for the year ended May 31, 2010, and have issued our report thereon dated October 21, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



This report is intended solely for the information and use of management, those charged with governance, others within the University, U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**BDO USA, LLP**

Dallas, Texas  
October 21, 2010

## **Part III – Schedule of Findings and Questioned Costs**

# Schreiner University

## Schedule of Findings and Questioned Costs Year Ended May 31, 2010

### Section I – Summary of Auditor’s Results

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#### *Financial Statements*

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? None
- Significant deficiencies? None

Noncompliance material to financial statements noted? No

#### *Federal Awards*

Internal control over major programs

- Material weakness identified? None
- Significant deficiencies? None

Type of auditor’s report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: No

Identification of major programs:

#### CFDA Numbers

84.063, 84.007, 84.033, 84.032

#### Name of Federal Program or Cluster

U.S. Department of Education-Student  
Financial Aid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

# Schreiner University

## Schedule of Findings and Questioned Costs (Continued) Year Ended May 31, 2010

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### **Section II- Financial Statement Findings**

The results of our procedures disclosed no findings to be reported for the year ended May 31, 2010.

### **Section III - Federal Award Findings**

The results of our audit procedures disclosed no findings to be reported for the year ended May 31, 2010.

### **Section IV - Summary of Prior Audit Findings**

There were no prior year findings required to be reported.