

# **Mount Mercy University**

Financial Report  
June 30, 2012

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## Independent Auditor's Report

To the Board of Trustees  
Mount Mercy University  
Cedar Rapids, Iowa

We have audited the accompanying statements of financial position of Mount Mercy University (University) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the financial statements 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mount Mercy University as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey LLP*

Davenport, Iowa  
October 30, 2012

**Mount Mercy University**

**Statements of Financial Position  
June 30, 2012 and 2011**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 1,744,202	\$ 2,238,452
Receivables:		
Student accounts, net of allowance for doubtful accounts 2012 \$850,000; 2011 \$825,000	1,237,803	1,117,735
Contributions, net (Note 2)	5,222,031	3,039,248
Student loans, net (Note 3)	1,943,690	2,099,977
Due from government	1,009,361	60,095
Other	357,315	388,969
Prepaid expenses, inventory and other assets	654,268	563,540
Beneficial interest in charitable lead trust	1,407,577	1,477,902
Investments (Note 4)	20,623,410	21,426,332
Property and equipment, net (Notes 5 and 7)	34,842,678	33,780,450
<b>Total assets</b>	<b>\$ 69,042,335</b>	<b>\$ 66,192,700</b>

**Liabilities and Net Assets**

Accounts payable, deposits and accrued expenses	\$ 2,751,898	\$ 3,462,985
Deferred revenue, summer school tuition	414,772	324,995
Short-term note payable (Note 7)	19,565	-
Annuities and life income payable (Note 6)	127,000	134,000
Long-term debt (Notes 5 and 7)	10,664,268	8,668,651
Due to U.S. government, refundable loan programs	1,782,990	1,803,399
<b>Total liabilities</b>	<b>15,760,493</b>	<b>14,394,030</b>
Net assets (Notes 8 and 9):		
Unrestricted	33,055,414	28,625,350
Temporarily restricted	6,058,843	9,415,618
Permanently restricted	14,167,585	13,757,702
<b>Total net assets</b>	<b>53,281,842</b>	<b>51,798,670</b>
<b>Total liabilities and net assets</b>	<b>\$ 69,042,335</b>	<b>\$ 66,192,700</b>

See Notes to Financial Statements.

**Mount Mercy University**

**Statement of Activities  
Year Ended June 30, 2012**

	Unrestricted		Total
	Current Fund	Other Funds	
Revenues and gains:			
Tuition and fees	\$ 29,808,692	\$ 74,061	\$ 29,882,753
Less scholarships and grants	8,656,841	-	8,656,841
<b>Total tuition and fees, net</b>	<b>21,151,851</b>	<b>74,061</b>	<b>21,225,912</b>
Contributions	680,273	168,526	848,799
Federal and state grants	171,603	101	171,704
Sales and services of auxiliary enterprises	4,390,440	6,783	4,397,223
Other	308,665	179,682	488,347
Net assets released from restrictions (Note 8)	-	6,069,546	6,069,546
<b>Total revenues, gains and other support</b>	<b>26,702,832</b>	<b>6,498,699</b>	<b>33,201,531</b>
Expenses (Note 11):			
Education and general:			
Instruction	8,470,300	49,647	8,519,947
Academic support	2,510,834	79,688	2,590,522
Student services	3,739,911	374,760	4,114,671
Development	769,089	365,977	1,135,066
Institutional support	4,266,222	59,165	4,325,387
Auxiliary enterprises	3,048,951	2,129	3,051,080
Operation and maintenance of plant	2,830,489	1,817,615	4,648,104
Interest expense	-	227,538	227,538
<b>Total expenses</b>	<b>25,635,796</b>	<b>2,976,519</b>	<b>28,612,315</b>
<b>Change in net assets before other activities</b>	<b>1,067,036</b>	<b>3,522,180</b>	<b>4,589,216</b>
Other activities:			
Investment return (Note 4)	1,758	(119,706)	(117,948)
Change in value of split interest agreements	-	-	-
(Loss) on disposal of property and equipment	-	(41,204)	(41,204)
Net transfers between funds	(1,364,048)	1,364,048	-
<b>Change in net assets before adjustment</b>	<b>(295,254)</b>	<b>4,725,318</b>	<b>4,430,064</b>
Change in donor intent	-	-	-
<b>Change in net assets</b>	<b>(295,254)</b>	<b>4,725,318</b>	<b>4,430,064</b>
Net assets, at beginning of year	805,844	27,819,506	28,625,350
Net assets, at end of year	<b>\$ 510,590</b>	<b>\$ 32,544,824</b>	<b>\$ 33,055,414</b>

See Notes to Financial Statements.

Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ -	\$ 29,882,753
-	-	8,656,841
-	-	21,225,912
2,511,173	692,214	4,052,186
9,000	-	180,704
3,584	-	4,400,807
119,715	-	608,062
(6,069,546)	-	-
(3,426,074)	692,214	30,467,671
-	-	8,519,947
-	-	2,590,522
-	-	4,114,671
-	-	1,135,066
-	-	4,325,387
-	-	3,051,080
-	-	4,648,104
-	-	227,538
-	-	28,612,315
(3,426,074)	692,214	1,855,356
(164,599)	(4,933)	(287,480)
(26,102)	(17,398)	(43,500)
-	-	(41,204)
-	-	-
(3,616,775)	669,883	1,483,172
260,000	(260,000)	-
(3,356,775)	409,883	1,483,172
9,415,618	13,757,702	51,798,670
<b>\$ 6,058,843</b>	<b>\$ 14,167,585</b>	<b>\$ 53,281,842</b>

**Mount Mercy University**

**Statement of Activities  
Year Ended June 30, 2011**

	Unrestricted		Total
	Current Fund	Other Funds	
<b>Revenues and gains:</b>			
Tuition and fees	\$ 27,202,883	\$ 38,271	\$ 27,241,154
Less scholarships and grants	7,836,917	-	7,836,917
<b>Total tuition and fees, net</b>	<b>19,365,966</b>	<b>38,271</b>	<b>19,404,237</b>
Contributions	443,565	133,802	577,367
Federal and state grants	151,931	-	151,931
Sales and services of auxiliary enterprises	4,000,935	7,539	4,008,474
Other	385,435	216,427	601,862
Net assets released from restrictions (Note 8)	-	688,707	688,707
<b>Total revenues, gains and other support</b>	<b>24,347,832</b>	<b>1,084,746</b>	<b>25,432,578</b>
<b>Expenses (Note 11):</b>			
Education and general:			
Instruction	7,939,523	125,594	8,065,117
Academic support	2,379,699	52,176	2,431,875
Student services	3,341,903	273,483	3,615,386
Development	765,599	261,501	1,027,100
Institutional support	3,704,538	30,536	3,735,074
Auxiliary enterprises	2,906,650	14,979	2,921,629
Operation and maintenance of plant	2,711,402	1,591,505	4,302,907
Interest expense	-	303,099	303,099
<b>Total expenses</b>	<b>23,749,314</b>	<b>2,652,873</b>	<b>26,402,187</b>
<b>Change in net assets before other activities</b>	<b>598,518</b>	<b>(1,568,127)</b>	<b>(969,609)</b>
<b>Other activities:</b>			
Investment return (Note 4)	18,372	1,661,639	1,680,011
Change in value of split interest agreements	-	-	-
(Loss) on disposal of property and equipment	-	(42,338)	(42,338)
Net transfers between funds	(321,631)	782,816	461,185
<b>Change in net assets</b>	<b>295,259</b>	<b>833,990</b>	<b>1,129,249</b>
Net assets, at beginning of year	510,585	26,985,516	27,496,101
Net assets, at end of year	<b>\$ 805,844</b>	<b>\$ 27,819,506</b>	<b>\$ 28,625,350</b>

See Notes to Financial Statements.

Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ -	\$ 27,241,154
-	-	7,836,917
-	-	19,404,237
853,066	256,820	1,687,253
301,228	-	453,159
1,421	-	4,009,895
132,136	-	733,998
(688,707)	-	-
599,144	256,820	26,288,542
-	-	8,065,117
-	-	2,431,875
-	-	3,615,386
-	-	1,027,100
-	-	3,735,074
-	-	2,921,629
-	-	4,302,907
-	-	303,099
-	-	26,402,187
599,144	256,820	(113,645)
2,014,652	738,866	4,433,529
92,012	(22,999)	69,013
-	-	(42,338)
(38,292)	(422,893)	-
2,667,516	549,794	4,346,559
6,748,102	13,207,908	47,452,111
\$ 9,415,618	\$ 13,757,702	\$ 51,798,670



**Mount Mercy University**

**Statements of Cash Flows  
Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash Flows from Operating Activities:</b>		
Increase in net assets	\$ 1,483,172	\$ 4,346,559
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,797,229	1,550,786
Change in value of split interest agreements	43,500	(69,013)
Loss on disposal of property and equipment	46,204	42,338
Provision for bad debts on student accounts and loans receivable	168,074	59,165
Contributions and income restricted for long-term investment	(3,187,389)	(256,820)
Debt forgiveness	(20,000)	(20,000)
Net depreciation (appreciation) on investments and split-interest agreements	679,276	(3,971,723)
Change in assets and liabilities:		
Student accounts receivable	(288,142)	243,513
Contributions receivable and beneficial interest in charitable lead trust	163,717	222,289
Due from government	(949,266)	89,253
Other receivables	31,654	(185,933)
Prepaid expenses, inventory and other assets	(90,728)	(201,137)
Accounts payable, deposits and accrued expenses	(87,903)	407,681
Deferred revenue, summer school tuition	89,777	(381,869)
<b>Net cash provided by (used in) operating activities</b>	<b>(120,825)</b>	<b>1,875,089</b>
<b>Cash Flows from Investing Activities:</b>		
Disbursements of student loans	(255,549)	(275,126)
Collections of student loans	411,836	394,824
Purchases of property and equipment	(2,895,372)	(6,907,796)
Purchases of investments	(12,521,539)	(21,170,186)
Proceeds from sales of investments	12,645,185	24,705,373
<b>Net cash (used in) investing activities</b>	<b>(2,615,439)</b>	<b>(3,252,911)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from contributions and income restricted for long-term investment	887,573	237,100
Repayment on capital leases	(270,874)	(255,473)
Repayment on short-term debt	(588,000)	-
Proceeds from short-term debt	607,565	-
Repayment on long-term debt	(465,797)	(31,535)
Proceeds from long-term debt	2,118,815	1,396,234
Payments on annuity and life income agreements	(26,859)	(27,051)
Net change in advances from federal government for student loans	(20,409)	(57,996)
<b>Net cash provided by financing activities</b>	<b>\$ 2,242,014</b>	<b>\$ 1,261,279</b>

(Continued)

**Mount Mercy University**

**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2012 and 2011**

	<b>2012</b>	2011
<b>(Decrease) in cash and cash equivalents</b>	<b>\$ (494,250)</b>	\$ (116,543)
Cash and cash equivalents:		
Beginning	<u>2,238,452</u>	2,354,995
Ending	<u><b>\$ 1,744,202</b></u>	<u>\$ 2,238,452</u>
Supplemental Disclosure of Cash Flow Information, cash payments for interest	<b>\$ 190,603</b>	\$ 237,636
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Accounts payable incurred for purchase of property and equipment	<b>50,000</b>	673,184
Equipment acquired and financed by capital lease obligations	<b>633,473</b>	78,617

See Notes to Financial Statements.

## Mount Mercy University

### Notes to Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Mount Mercy University (the “University”) is a private University located in Cedar Rapids, Iowa, offering undergraduate and graduate studies to domestic and international students. The University was formerly known as Mount Mercy College.

A summary of the University's significant accounting policies follows:

Accounting 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.

Basis of presentation: To ensure observance of limitations and restrictions placed on the use of resources available, the University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the University.

For external reporting purposes, the University's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions.

Net assets and related activity are classified as unrestricted, temporarily restricted or permanently restricted as follows:

Unrestricted net assets include the following:

Education and general operations of the University: Education and general operations include the revenues and expenses associated with the principal educational mission of the University.

Designated departmental: Sponsored grant agreements recognize revenue as it is earned through an expenditure in accordance with the agreements. Any funding received in advance of the expenditure is recorded as deferred revenue. Designated departmental net assets include gifts to the University and its various departments. The University has determined that any donor imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the University and, therefore, the University's policy is to record these net assets as unrestricted.

Investment in plant facilities: The University follows the policy of recording contributions of long-lived assets directly in investment in plant.

Long-term investment: Long-term investments include unrestricted gifts and Board of Trustee designations to funds functioning as endowment (quasi-endowment).

Temporarily restricted net assets include gifts and income for which donor imposed restrictions have not been met, trust activity and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted, and accumulated earnings for restricted endowment fund assets not yet appropriated for expenditure by the Board of Trustees.

## Mount Mercy University

### Notes to Financial Statements

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#### **Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

Permanently restricted net assets include gifts, trusts, pledges and bequests receivable that require by donor restriction that the corpus is invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. For the year ended June 30, 2011, this category also includes gifts that have been donor stipulated to provide loans to students. During year ended June 30, 2012, the donor stipulations on these gifts changed causing the gifts to be reclassified to temporarily restricted net assets.

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 donor restricted endowment fund investments and other endowment related assets or liabilities are reported as increases or decreases in temporarily restricted net assets, unless their use is restricted by explicit donor stipulations.

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 substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contributions revenue in accordance with donor imposed restrictions, if any, on the contributions. An allowance for uncollectible contribution receivables is provided based upon management's judgment including such factors as prior collection history, type of contributions and nature of fundraising activity.

Contributions with restrictions met in the same year: Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Cash and cash equivalents: The University considers highly liquid investments purchased with a maturity of three months or less and not held by a trustee to be cash equivalents. Money market funds held for long-term investment are included in investments. Cash in excess of daily requirements is invested in interest-bearing accounts of qualified financial institutions in amounts that frequently exceed federally insured limits. The University has not experienced any losses on these accounts.

Accounts and loans receivable: Accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both accounts and loans receivable are net of an allowance for doubtful accounts. For accounts receivable, management determines the allowance for doubtful accounts by calculating a specific percent reserve on accounts by enrollment category based on historical experience. For loans receivable, the allowance is based on amounts sent to collection agencies. Student accounts and loans receivable are written off when deemed uncollectible and when student loans receivable may be assigned to the U.S. Department of Education. Recoveries of student accounts and loans receivable previously written off are recorded when received. The University had bad debt expense of \$168,074 and \$59,165 for the years ended June 30, 2012 and 2011, respectively.

A monthly service fee is charged on enrolled student accounts receivable with a balance outstanding and is recognized as it is charged. If the student is no longer enrolled, interest at a prescribed rate is charged monthly on outstanding balances. If payment plans are established, interest charges may be waived.

# Mount Mercy University

## Notes to Financial Statements

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### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Interest is charged and recognized on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. Interest is recognized as charged. Late charges are charged if payments are not paid by the payment due date and are recognized as they are received. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education or in the case of loan funds of the University, based on the respective loan program.

Inventory: Inventory is stated at the lower of cost (first-in, first-out method) or market.

Beneficial interest in charitable lead trust: The University has a beneficial interest in a charitable lead trust established by a trustee of the University. The assets of the trust are held by a third party trustee. The agreement is initially recorded at the present value of the estimated future receipts as a beneficial interest in split interest agreement and temporarily restricted contribution income.

Carrying value of investments: Investments are generally recorded at fair value. Fair value of marketable securities is determined by quoted market prices on the last day of the fiscal year. Land is recorded at appraised value.

Alternative investments, which include an investment in a hedge fund of funds, are not readily marketable. The investment in this category is valued utilizing the most current information provided by the general partner or manager of the fund. Because the alternative investment is not readily marketable, its estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. The University has the ability to liquidate its alternative investment periodically in accordance with the provisions of the investment fund agreement.

Donated investments are recorded at fair value on the date received. Realized gains (losses) are calculated using the average cost method.

Property and equipment: Property and equipment is carried at cost at the date of acquisition or fair value at the date of gift, less accumulated depreciation. Depreciation on assets acquired under capital leases is included with depreciation expense on owned assets. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of those assets. The University capitalized interest costs of approximately \$170,000 and none for the years ended June 30, 2012 and 2011, respectively. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10 – 50
Land improvements	20
Furniture and equipment	10 – 20
Library collections	15

Due to U.S. government: Amounts due to the U.S. government include advances under the Perkins Loan and Nursing Loan Programs and the programs' cumulative net income.

Revenue recognition: Tuition, fees and room and board revenue is recognized in the year the services are performed. Net tuition and fees are computed after deducting financial aid awarded to students. Investment income is recognized as it is earned.

## Mount Mercy University

### Notes to Financial Statements

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#### **Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

Fundraising expenses: Fundraising expenses for the University consist all of the costs of the office of Development. The University incurred fundraising costs of approximately \$1,135,000 and \$1,027,000 for the years ended June 30, 2012 and 2011, respectively.

Advertising: The University follows the policy of charging advertising costs to expense the first time the advertising takes place. Advertising expense is immaterial to the financial statements taken as a whole.

Asset retirement obligation: The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each year. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statements of activities. The University reviews its estimates annually and adjusts the recorded liability as needed. The liability is recorded in accounts payable, deposits and accrued expenses in the Statements of Financial Position.

Self-insurance: The University was self-insured with respect to its health insurance coverage through November 2010. The University maintained reinsurance that carried a stop loss of \$50,000 per participant covered and an aggregate stop loss of approximately \$1,018,000. For the year ended June 30, 2011, the amount of health insurance expense, net of stop-loss recoveries received or receivable was approximately \$1,589,000. As of December 2010, the University was fully insured.

Fair value of financial instruments: The following methods and significant assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, accounts receivable and accounts payable: The carrying amount approximates fair value because of the short maturity of those instruments.

Contributions receivable: The carrying amount approximates fair value as they are discounted to present value based on rates commensurate with the risks involved.

Loans to students: The fair value of institutional loans approximates the carrying value. Loans receivable and the related liability for U.S. government revolving loan programs are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

Investments: Marketable debt and equity securities are carried at fair values which are based on quoted market prices on the last day of the year for those or similar investments. Alternative investments are based on fair value as determined by management based on the information provided by the general partner or manager of the fund.

Notes, bonds and annuities payable: The carrying amount of notes, bonds and annuities payable approximates fair value, as borrowing rates currently available to the University for similar instruments are consistent with existing terms.

## Mount Mercy University

### Notes to Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Income taxes: The University is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University may be subject to federal and state income taxes on any net income from unrelated business activities. The University files a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated their material tax positions, which include such matters as the tax exempt status and various positions relative to potential sources of UBI. As of June 30, 2012 and 2011, there were no uncertain tax benefits identified and recorded as a liability. Forms 990 and 990-T filed by the University are no longer subject to examination by the Internal Revenue Service for the fiscal years ended June 30, 2008 and prior.

Reclassifications: Certain items on the 2011 financial statements have been reclassified, with no effect on net assets or change in net assets to be consistent with the classifications adopted for the year ended June 30, 2012.

Subsequent events: The University has considered subsequent events through October 30, 2012, the date that the financial statements were available to be issued.

New accounting pronouncement: In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU was issued to clarify FASB's intent on application of certain aspects of existing fair value measurement requirements and to change certain requirements for measuring fair value and for disclosing information about fair value measurements. These changes include guidance on measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts, and additional disclosures about fair value measurements. FASB has concluded that this ASU will achieve the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. This ASU is effective for the University for annual reporting periods beginning after December 15, 2011. Management is in the process of evaluating the potential impact this standard will have on its financial statements.

#### Note 2. Contributions Receivable

Contributions receivable (unconditional promises to give) are included in the financial statements as a receivable and revenue of the appropriate net asset category. Unconditional promises to give are expected to be realized in the following periods as of June 30:

	2012	2011
In one year or less	\$ 1,332,330	\$ 815,451
Between one year and five years	4,007,800	2,377,690
Less allowance for uncollectable accounts	(48,485)	(25,247)
Less discount *	(69,614)	(128,646)
	<u>\$ 5,222,031</u>	<u>\$ 3,039,248</u>

\* Discount for time value of money using a discount rate of 0.16-3.00%.

## Mount Mercy University

### Notes to Financial Statements

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#### Note 2. Contributions Receivable (Continued)

The above unconditional promises to give have been included in the following net asset categories as of June 30:

	2012	2011
Unrestricted	\$ 325,087	\$ 349,598
Temporarily restricted	4,369,468	2,670,864
Permanently restricted	527,476	18,786
	<u>\$ 5,222,031</u>	<u>\$ 3,039,248</u>

Of the outstanding unconditional promises to give, approximately \$4,350,000 and \$2,403,000 as of June 30, 2012 and 2011, respectively, is due from employees and Trustees of the University.

#### Note 3. Student Loans Receivable

Student loans receivable as of June 30, 2012 and 2011 are as follows:

	2012	2011
Perkins Loan Program	\$ 2,025,756	\$ 2,182,704
Nursing Loan Fund	3,792	3,792
McElroy Loan Fund	185,392	182,731
	<u>2,214,940</u>	<u>2,369,227</u>
Less allowance for doubtful accounts	271,250	269,250
	<u>\$ 1,943,690</u>	<u>\$ 2,099,977</u>

#### Note 4. Investments

Investments consist of the following as of June 30, 2012 and 2011:

	2012	2011
Money market funds	\$ 54,135	\$ 108,843
Equity mutual funds	10,966,813	11,725,502
Fixed income mutual funds	4,164,682	4,756,800
U.S. Treasury bonds	680	818
Global bond fund	1,340,550	595,244
Funds held by others	17,319	17,700
Hedge fund	2,147,905	2,183,833
Beneficial interest in trusts	1,601,832	1,673,098
Real estate	140,000	175,000
Cash value of life insurance	189,494	189,494
<b>Total</b>	<u>\$ 20,623,410</u>	<u>\$ 21,426,332</u>



## Mount Mercy University

### Notes to Financial Statements

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#### Note 4. Investments (Continued)

Investment return for the years ended June 30, 2012 and 2011 was comprised of the following:

	2012	2011
Investment income, net of investment expenses 2012 \$91,817; 2011 \$88,247	\$ 391,796	\$ 461,806
Net realized gain (loss) on investments	(8,387)	991,303
Net unrealized gain (loss) on investments	(670,889)	2,980,420
Other activities, investment returns	\$ (287,480)	\$ 4,433,529

The investments of the University are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

#### Note 5. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2012	2011
Buildings and improvements	\$ 46,157,966	\$ 37,778,686
Land and land improvements	2,441,546	2,338,353
Equipment, including assets acquired under capital leases 2012 \$1,666,327; 2011 \$1,032,854	5,931,554	5,113,003
Furniture, equipment and library collection	3,729,822	3,401,414
Construction in progress	92,945	7,068,045
	58,353,833	55,699,501
Less accumulated depreciation, including amounts applicable to assets acquired under capital leases 2012 \$551,052; 2011 \$335,285	23,511,155	21,919,051
	\$ 34,842,678	\$ 33,780,450

#### Note 6. Annuities and Life Income Payable

The University has received amounts from various individuals under annuity agreements and charitable remainder trust agreements that require the University to pay to the donors varying amounts during their lifetimes. The present value of these payments using a discount rate ranging from 1.05% to 8.00% totaled \$127,000 and \$134,000 as of June 30, 2012 and 2011, respectively.

#### Note 7. Long-Term Debt

The University has a working capital line of credit with a bank under which it can borrow up to \$800,000 in current notes payable. All borrowings are unsecured and bear interest at the bank's prime rate (current effective rate of 3.25% as of June 30, 2012). The agreement expires January 31, 2013 and the University is required to maintain various financial ratios. There were borrowings outstanding under this agreement as of June 30, 2012 and 2011 of \$19,565 and none, respectively.

**Mount Mercy University**

**Notes to Financial Statements**

**Note 7. Long-Term Debt (Continued)**

Long-term debt as of June 30 is as follows:

	2012	2011
The College has an unsecured note payable through the Linn County, Iowa Private College Revenue Bonds (Mount Mercy College Project), Series 2010. Interest is due quarterly through October 1 2020 at a rate of 4.15%. Principal payments of \$431,333 are due annually beginning October 1, 2011 with the remaining balance due at maturity in 2020. The agreement also requires compliance with various financial ratios.	\$ 6,038,667	\$ 6,470,000
The University has an unsecured note payable through Linn County, Iowa Private College Revenue Bonds, Series 2010. The note was used to build the University Center that was completed during 2011. Interest is due quarterly through October 1, 2017 at a rate of 2.81%. Principal payments of \$583,333 are due annually beginning October 2014 with the remaining balance due October 1, 2017. The University has \$191,950 available to borrow on this loan. The agreement also requires compliance with various financial ratios.	3,308,050	1,277,234
The University has a mortgage loan that has an interest rate of 4.60% and requires monthly mortgage payments of \$764 with a maturity date of January 2016. The loan is collateralized by real estate with a carrying value of \$119,000.	113,712	117,465
The University has a mortgage loan that has an interest rate of 4.00% and requires monthly mortgage payments of \$536 with a maturity date of March 2017. The loan is collateralized by real estate with a carrying value of \$110,000.	87,289	-
The College has eleven capital lease agreements which expire at various dates through 2017 and require monthly payments of \$29,737. The present value of these minimum lease payments are discounted at rate of 0.3% to 6.0% and approximates the fair value of the equipment. (Note 5)	716,550	353,952
Other	400,000	450,000
	<u>\$ 10,664,268</u>	<u>\$ 8,668,651</u>

## Mount Mercy University

### Notes to Financial Statements

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#### Note 7. Long-Term Debt (Continued)

Maturities of long-term debt are as follows:

Year ending June 30:	
2013	\$ 690,669
2014	1,258,600
2015	1,229,632
2016	1,264,983
2017	1,213,667
Thereafter	5,006,717
	<u>\$ 10,664,268</u>

#### Note 8. Net Assets

Temporarily restricted net assets as of June 30, 2012 and 2011 are available for the following purposes or period:

	2012	2011
Gifts and other unexpended revenue available for:		
Physical plant construction and library acquisitions	\$ 1,125,002	\$ 3,838,647
Debt service	1,407,577	1,477,902
Scholarship	2,693,284	3,399,851
Student loan program	487,337	220,835
Instructional programs	345,643	478,383
	<u>\$ 6,058,843</u>	<u>\$ 9,415,618</u>

Net assets were released from restriction during the years ended June 30, 2012 and 2011 as follows:

	2012	2011
Instructional programs	\$ 358,592	\$ 373,161
Physical plant construction and library acquisitions	5,208,821	-
Scholarships	431,808	249,200
Debt service	70,325	66,346
	<u>\$ 6,069,546</u>	<u>\$ 688,707</u>

## Mount Mercy University

### Notes to Financial Statements

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#### Note 8. Net Assets (Continued)

Permanently restricted net assets as of June 30 are restricted as follows:

	2012	2011
Investment in perpetuity, the income from which is expendable for:		
Scholarships	\$ 11,716,979	\$ 11,091,130
Technology	556,084	556,084
Endowed chair	479,903	479,903
Humanities	150,000	150,000
Annuity and life income agreements	87,216	109,547
Student loan program	-	260,000
Operation and maintenance of campus facilities	187,950	187,915
Academic departments	740,582	655,582
Other	248,871	267,541
	<u>\$ 14,167,585</u>	<u>\$ 13,757,702</u>

#### Note 9. Endowment Funds

Endowment Funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be utilized. While Quasi-Endowment Funds have been established by the governing Board for the same purposes as Endowment Funds, any portion of Quasi-Endowment Funds may be expended.

The University's Endowment Fund consists of various donor restricted endowment funds and funds designated as endowment, quasi-endowment, by the Board of Trustees. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 Iowa legislature 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; (d) the original net present value of permanently restricted annuities and (e) subsequent changes in amounts due under permanently restricted annuities. 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 the State of Iowa in its enacted version of UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University and (7) the investment policies of the University.

## Mount Mercy University

### Notes to Financial Statements

#### Note 9. Endowments Funds (Continued)

The University has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the University a predictable funding stream for its programs while achieving an investment return greater than the combination of the current spending formula and the current rate of inflation in order to protect the purchasing power of the Endowment Fund. The University, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long-term of at least 9.5%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the University expects to maintain appropriate diversification among equity, fixed income and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Board of Trustees of the Mount Mercy University may appropriate for expenditure or accumulate so much of the Endowment Fund as the University determines is prudent for the uses, benefits, purposes and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board approved percentage applied to the average fair value of the pooled endowment fund assets during the prior twelve quarters. In cases where the fair value of endowment fund assets fall below the original value of the gifts donated to the permanent endowment, the Board will fund the appropriation for scholarships from the quasi endowment. Endowed funds whose fair value is below the original value of the gift will not be appropriated. The Board approved spending percentage was 4.0% for the fiscal years ended June 30, 2012 and 2011.

Endowment net assets as of June 30, 2012 and 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>2012</b>				
Donor-restricted endowment funds	\$ (107,533)	\$ 2,693,284	\$ 14,080,369	\$ 16,666,120
Board-designated quasi-endowment funds	6,332,809	-	-	6,332,809
Annuity funds	-	-	87,216	87,216
<b>Total endowment funds</b>	<b>\$ 6,225,276</b>	<b>\$ 2,693,284</b>	<b>\$ 14,167,585</b>	<b>\$ 23,086,145</b>
<b>2011</b>				
Donor-restricted endowment funds	\$ (37,162)	\$ 3,399,851	\$ 13,388,155	\$ 16,750,844
Board-designated quasi-endowment funds	6,725,175	-	-	6,725,175
Annuity funds	-	-	109,547	109,547
<b>Total endowment funds</b>	<b>\$ 6,688,013</b>	<b>\$ 3,399,851</b>	<b>\$ 13,497,702</b>	<b>\$ 23,585,566</b>

# Mount Mercy University

## Notes to Financial Statements

### Note 9. Endowments Funds (Continued)

The changes in endowment net assets for the years ended June 30, 2012 and 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>2012</b>				
Endowment net assets, beginning of year	\$ 6,688,013	\$ 3,399,851	\$ 13,497,702	\$ 23,585,566
Investment return:				
Investment income	77,749	300,138	(1,747)	376,140
Net appreciation (depreciation) (realized and unrealized)	(197,689)	(469,233)	(3,186)	(670,108)
<b>Total investment return</b>	<b>(119,940)</b>	<b>(169,095)</b>	<b>(4,933)</b>	<b>(293,968)</b>
Contributions and grants	-	-	692,214	692,214
Appropriation of endowment funds for expenditure	(238,876)	(461,124)	-	(700,000)
Trust distribution	-	(76,348)	-	(76,348)
Change in value of split interest agreements	-	-	(17,398)	(17,398)
Other changes	(103,921)	-	-	(103,921)
<b>Endowment net assets, end of year</b>	<b>\$ 6,225,276</b>	<b>\$ 2,693,284</b>	<b>\$ 14,167,585</b>	<b>\$ 23,086,145</b>
<b>2011</b>				
Endowment net assets, beginning of year	\$ 5,165,154	\$ 1,528,523	\$ 12,947,908	\$ 19,641,585
Investment return:				
Investment income	105,943	239,295	-	345,238
Net appreciation (depreciation) (realized and unrealized)	1,591,558	1,760,979	738,866	4,091,403
<b>Total investment return</b>	<b>1,697,501</b>	<b>2,000,274</b>	<b>738,866</b>	<b>4,436,641</b>
Contributions and grants	-	92,479	256,820	349,299
Appropriation of endowment funds for expenditure	(423,150)	(302,850)	-	(726,000)
Trust distribution	-	(75,935)	-	(75,935)
Change in value of split interest agreements	-	-	(22,999)	(22,999)
Other changes	248,508	157,360	(422,893)	(17,025)
<b>Endowment net assets, end of year</b>	<b>\$ 6,688,013</b>	<b>\$ 3,399,851</b>	<b>\$ 13,497,702</b>	<b>\$ 23,585,566</b>

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2012 and 2011 \$107,533 and \$37,162, respectively, of the University's donor restricted endowment funds were underwater. This amount is reported in unrestricted net assets. These deficiencies, which the University believes are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal years ended June 30, 2012 and June 30, 2011 for certain programs was prudent.

## Mount Mercy University

### Notes to Financial Statements

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#### Note 10. Retirement Plans

The University has a retirement plan covering substantially all of its employees. The total retirement expense was approximately \$604,000 and \$577,000 for the years ended June 30, 2012 and 2011, respectively. The plan is of the defined-contribution type whereby the University contributes a specified percentage of the employee's salary and the employee's benefit is whatever amount the accumulated contributions will buy.

#### Note 11. Allocation of Functional Expenses

For the financial statements, the University is required to allocate the operations and maintenance of the physical plant and interest expense to the various programs of the University. The allocations to the various programs for the years ended June 30, 2012 and 2011 are as follows:

	Expenses as Reported on The Statement of Activities	Allocations to Programs	Program Expenses After Allocations
2012:			
Expenses:			
Instruction	\$ 8,519,947	\$ 1,750,044	\$ 10,269,991
Academic support	2,590,522	532,107	3,122,629
Student services	4,114,671	845,176	4,959,847
Institutional advancement	1,135,066	233,149	1,368,215
Institutional support	4,325,387	888,458	5,213,845
Auxiliary enterprises	3,051,080	626,708	3,677,788
Operations and maintenance of plant	4,648,104	(4,648,104)	-
Interest expense	227,538	(227,538)	-
<b>Total expenses</b>	<b>\$ 28,612,315</b>	<b>\$ -</b>	<b>\$ 28,612,315</b>
2011:			
Expenses:			
Instruction	\$ 8,065,117	\$ 1,702,609	\$ 9,767,726
Academic support	2,431,875	579,846	3,011,721
Student services	3,615,386	731,540	4,346,926
Institutional advancement	1,027,100	220,107	1,247,207
Institutional support	3,735,074	788,893	4,523,967
Auxiliary enterprises	2,921,629	583,011	3,504,640
Operations and maintenance of plant	4,302,907	(4,302,907)	-
Interest expense	303,099	(303,099)	-
<b>Total expenses</b>	<b>\$ 26,402,187</b>	<b>\$ -</b>	<b>\$ 26,402,187</b>

## Mount Mercy University

### Notes to Financial Statements

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#### Note 12. Fair Value Instruments

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. The fair value hierarchy set forth in the Topic is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Investments measured using the practical expedient, that do not have any significant redemption restrictions, lock-up periods, gates or other characteristics that would cause report and liquidation date net asset value (NAV) to be significantly different, if redemption were requested at the report date.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The University reports the fair value of certain level 3 investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the University based on various factors, to be used to determine fair value, under certain conditions. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. These investments would have significant redemption and other restrictions that would limit the Funds' ability to redeem out of the fund at report date NAV.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Investments: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, corporate bonds, and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, funds where the value is based on net asset value provided by the investment manager, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation including alternative investments, securities are classified within level 3 of the valuation hierarchy. The University's hedge fund investments do not have a readily determinable fair value and have redemption restrictions that prevent the funds from immediately being sold. As such, they are classified as level 3 investments. The audited calendar year-end Fund balances are carried forward to the fiscal year end using interim valuations provided by each fund's investment manager. The value of real estate is determined through third party appraisals. Beneficial interest in trusts and funds held by others are valued by third parties. Life insurance policies are valued at cash surrender values determined by the life insurance companies.

Charitable lead trusts: The value of charitable lead trusts is derived from the fair value of the underlying investments of the trusts. The value of those investments is determined in the same manner as investments described above. Future expected cash flows are discounted using a risk adjusted discount rate.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2012.



**Mount Mercy University**

**Notes to Financial Statements**

**Note 12. Fair Value Instruments (Continued)**

The following tables summarize assets measured at fair value on a recurring basis as of June 30, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Fair Value	Quoted	Significant Other	Significant
		Prices in Active Markets for Identified Assets Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
<b>2012</b>				
Investments:				
Equity mutual funds:				
Small cap funds	\$ 5,748	\$ 5,748	\$ -	\$ -
Mid cap funds	202,252	202,252	-	-
Large cap funds	6,899,085	6,899,085	-	-
International funds	3,210,063	3,210,063	-	-
Natural resources	649,665	649,665	-	-
Fixed income mutual funds:				
Total return funds	1,796,135	1,796,135	-	-
Long-term bond fund	2,368,547	2,368,547	-	-
U.S. agency securities	680	-	680	-
Global bond fund	1,340,550	698,530	642,020	-
Funds held by others	17,319	-	-	17,319
Hedge fund	2,147,905	-	-	2,147,905
Beneficial interest in trusts	1,601,832	-	-	1,601,832
Real estate	140,000	-	-	140,000
Cash value of life insurance	189,494	-	-	189,494
	<b>\$ 20,569,275</b>	<b>\$ 15,830,025</b>	<b>\$ 642,700</b>	<b>\$ 4,096,550</b>
Charitable lead trust	\$ 1,407,577	\$ -	\$ -	\$ 1,407,577

**Mount Mercy University**

**Notes to Financial Statements**

**Note 12. Fair Value Instruments (Continued)**

	Fair Value	Quoted Prices in Active Markets for Identified Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	2011			
Investments:				
Equity mutual funds:				
Small cap funds	\$ 5,912	\$ 5,912	\$ -	\$ -
Mid cap funds	236,435	236,435	-	-
Large cap funds	7,123,695	7,123,695	-	-
International funds	3,497,313	3,497,313	-	-
Natural resources	862,147	862,147	-	-
Fixed income mutual funds:				
Total return funds	1,746,861	1,746,861	-	-
Long-term bond fund	2,253,608	2,253,608	-	-
International funds	756,331	756,331	-	-
U.S. agency securities	818	-	818	-
Global bond fund	595,244	-	595,244	-
Funds held by others	17,700	-	-	17,700
Hedge fund	2,183,833	-	-	2,183,833
Beneficial interest in trusts	1,673,098	-	-	1,673,098
Real estate	175,000	-	-	175,000
Cash value of life insurance	189,494	-	-	189,494
	<u>\$ 21,317,489</u>	<u>\$ 16,482,302</u>	<u>\$ 596,062</u>	<u>\$ 4,239,125</u>
Charitable lead trust	\$ 1,477,902	\$ -	\$ -	\$ 1,477,902

Included in investments on the statements of financial position are money markets that are cash and cash equivalents which are recorded at a cost basis of \$54,135 and \$108,843 as of June 30, 2012 and 2011, respectively.

There were no transfers between levels 1, 2 or 3 of the fair value hierarchy during the years ended June 30, 2012 and 2011.

# Mount Mercy University

## Notes to Financial Statements

### Note 12. Fair Value Instruments (Continued)

The following tables present additional information about assets measured at fair value on a recurring basis for which the University has utilized level 3 inputs to determine fair value.

	Funds Held by Others	Hedge Funds	Beneficial Interest in Trusts	Real Estate	Cash Value of Life Insurance	Charitable Lead Trust
June 30, 2012						
Balance, beginning	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
Total gains or losses (realized/unrealized) included in change in net assets	(381)	(35,928)	20,035	(35,000)	10	109,134
Settlements	-	-	(91,301)	-	-	(179,459)
Balance, ending	\$ 17,319	\$ 2,147,905	\$ 1,601,832	\$ 140,000	\$ 189,494	\$ 1,407,577
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902
June 30, 2011						
Balance, beginning	\$ 9,800	\$ 1,854,844	\$ 1,473,099	\$ 1,200,000	\$ 124,940	\$ 1,544,248
Total gains or losses (realized/unrealized) included in change in net assets	2,876	328,989	199,999	720,000	64,544	103,744
Sale of investments	-	-	-	(1,745,000)	-	-
Settlements	5,024	-	-	-	-	(170,090)
Balance, ending	\$ 17,700	\$ 2,183,833	\$ 1,673,098	\$ 175,000	\$ 189,484	\$ 1,477,902

Gains and losses included in change in net assets for the periods above are reported as investment return on the statements of activities.

## Mount Mercy University

### Notes to Financial Statements

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#### Note 12. Fair Value Instruments (Continued)

The following table sets forth additional disclosure of the University's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2012 and 2011:

	Fair Value		Redemption Frequency	Redemption Notice Period
	2012	2011		
Investments:				
Hedge Funds (A)	\$ 2,147,905	\$ 2,183,833	Quarterly *	100 days before redemption period
Global Bond Fund (B)	642,020	595,244	Monthly	10 days written notice
	<u>\$ 2,789,925</u>	<u>\$ 2,779,077</u>		

(A) This category includes investments in hedge funds where the fund managers invest in segregated portfolios. These funds are valued on a regular basis. Redemptions can only be made at the end of each calendar quarter subject to 12 month lock up. The fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager.

(B) This category includes investments in bond funds that are primarily invested in U.S. fixed income instruments and non-U.S. sovereign debt. These funds are valued on a regular basis. Redemptions can only be made within 10 days of written notice. The fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager.

\* Subject to 12 month lockup.

There are no unfunded commitments as of June 30, 2012.

#### Note 13. Subsequent Event

In October 2012, the University received a donation of a building that the University plans to use for its new Graduate Center. The gift of this building includes conditions that must be met for the next 30 years including that the property be used for educational purposes and cannot be sold, leased, rented or otherwise transferred.