

Financial Report



For the Year Ended June 30, 2012

University of Redlands

Financial Report
June 30, 2012

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Independent Auditor's Report

To the Board of Trustees
University of Redlands
Redlands, California

We have audited the accompanying statements of financial position of University of Redlands 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 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 University of Redlands 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
November 19, 2012

University of Redlands

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

Assets	2012	2011
Cash and cash equivalents	\$ 464,805	\$ 455,317
Temporary investments	12,041,558	9,716,726
Student accounts receivable, net of allowance 2012 \$900,000; 2011 \$800,000	3,499,552	2,996,792
Other receivables	2,763,813	3,473,277
Prepaid expenses and other assets	2,402,530	2,418,185
Contributions receivable, net	4,431,654	5,197,255
Student loans receivable, net of allowance 2012 \$1,200,000; 2011 \$1,145,000	13,297,474	13,510,092
Investments	121,229,671	124,881,167
Trust receivables	1,169,372	1,059,526
Cash restricted for investment in property, plant and equipment	1,619,144	629,521
Property, plant and equipment, net	138,500,764	141,678,225
Other assets	1,420,443	1,527,678
Total assets	\$ 302,840,780	\$ 307,543,761

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 16,353,864	\$ 13,932,011
Deferred revenue	4,465,869	4,276,823
Asset retirement obligation	2,853,832	2,782,678
Bonds and notes payable	77,895,437	79,928,052
Actuarial liability for split-interest agreements	13,611,637	14,105,888
Refundable U.S. government student loans	5,218,294	5,150,448
Total liabilities	120,398,933	120,175,900

Commitments and contingencies (Notes 14, 15, 16 and 17)

Net assets:

Unrestricted	55,215,426	60,155,589
Temporarily restricted	30,461,078	32,168,747
Permanently restricted	96,765,343	95,043,525
Total net assets	182,441,847	187,367,861
Total liabilities and net assets	\$ 302,840,780	\$ 307,543,761

See Notes to Financial Statements.

University of Redlands

Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating activities:				
Revenue, gains and other support:				
Student revenues	\$ 142,140,436	\$ -	\$ -	\$ 142,140,436
Less student financial aid	(45,836,493)	-	-	(45,836,493)
Net student revenues	96,303,943	-	-	96,303,943
Sales and services of educational departments	375,414	-	-	375,414
Conference and other income	2,571,807	21,585	-	2,593,392
Contributions	1,988,001	923,746	-	2,911,747
Government grants and contracts	1,477,345	-	-	1,477,345
Investment return utilized in operations	(179,677)	582,461	-	402,784
Net assets released from restrictions	3,981,782	(3,981,782)	-	-
Total operating revenue, gains and other support	106,518,615	(2,453,990)	-	104,064,625
Operating expenses:				
Instruction and research	43,047,224	-	-	43,047,224
Public support	1,209,566	-	-	1,209,566
Academic support	8,140,526	-	-	8,140,526
Student services	17,029,997	-	-	17,029,997
Institutional support	27,500,194	-	-	27,500,194
Room, board and other auxiliary enterprises	14,875,696	-	-	14,875,696
Total operating expenses	111,803,203	-	-	111,803,203
Change in net assets from operating activities	(5,284,588)	(2,453,990)	-	(7,738,578)
Nonoperating activities:				
Contributions	449,126	1,870,845	827,218	3,147,189
Government grants & contracts	-	268,508	621,667	890,175
Investment return (loss), net of amounts designated for operations	(540,061)	(618,061)	331,553	(826,569)
Change in value of split-interest agreements	-	(358,294)	(179,566)	(537,860)
Other income	14,092	4,591	120,946	139,629
Net assets released from restrictions	421,268	(421,268)	-	-
Change in net assets from nonoperating activities	344,425	746,321	1,721,818	2,812,564
Increase (decrease) in net assets	(4,940,163)	(1,707,669)	1,721,818	(4,926,014)
Net assets:				
Beginning of year	60,155,589	32,168,747	95,043,525	187,367,861
End of year	\$ 55,215,426	\$ 30,461,078	\$ 96,765,343	\$ 182,441,847

See Notes to Financial Statements.

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 130,081,520	\$ -	\$ -	\$ 130,081,520
(40,475,376)	-	-	(40,475,376)
89,606,144	-	-	89,606,144
334,065	-	-	334,065
3,024,193	6,321	-	3,030,514
2,723,403	1,466,157	-	4,189,560
1,001,803	406,678	-	1,408,481
43,121	487,258	-	530,379
8,245,830	(8,245,830)	-	-
104,978,559	(5,879,416)	-	99,099,143
42,052,408	-	-	42,052,408
1,297,350	-	-	1,297,350
8,054,868	-	-	8,054,868
16,495,491	-	-	16,495,491
25,578,531	-	-	25,578,531
14,712,084	-	-	14,712,084
108,190,732	-	-	108,190,732
(3,212,173)	(5,879,416)	-	(9,091,589)
213,878	70,164	3,838,538	4,122,580
-	-	1,078,334	1,078,334
2,066,386	14,145,996	2,234,001	18,446,383
-	(536,758)	(1,592,625)	(2,129,383)
3,742	-	40,708	44,450
680,644	(680,644)	-	-
2,964,650	12,998,758	5,598,956	21,562,364
(247,523)	7,119,342	5,598,956	12,470,775
60,403,112	25,049,405	89,444,569	174,897,086
\$ 60,155,589	\$ 32,168,747	\$ 95,043,525	\$ 187,367,861

University of Redlands

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

	2012	2011
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (4,926,014)	\$ 12,470,775
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	9,460,102	10,426,212
Net (appreciation) depreciation on investments not restricted for long-term purposes	854,228	(16,319,744)
Net (appreciation) depreciation on investments restricted for long-term purposes	180,628	(1,802,875)
Contributions restricted for long-term investment	(2,259,308)	(2,864,282)
Investment earnings restricted for long-term purposes	(512,180)	(431,125)
Contribution of investments	-	(595,110)
Change in value of split-interest agreements	537,860	2,129,383
Increase in actuarial liability	32,370	817,741
Changes in assets and liabilities:		
Student accounts receivable	(502,760)	(314,110)
Contribution and other receivables	1,475,065	(196,678)
Prepaid expenses and other assets	15,655	(935,449)
Accounts payable, accrued expenses, deferred revenue and asset retirement obligation	735,643	196,001
Net cash provided by operating activities	5,091,289	2,580,739
Cash Flows from Investing Activities:		
Net activity from temporary investments	(2,324,832)	(3,155,769)
Purchase of investments	(73,793,606)	(3,534,247)
Proceeds from sale of investments	76,410,246	8,474,273
Disbursements of student loans	(1,369,247)	(1,667,410)
Collections of student loans	1,581,865	1,461,416
Acquisition of property, plant and equipment	(4,279,988)	(5,525,829)
Purchase of assets restricted for investment in property and equipment	(989,623)	(60,039)
Net cash (used in) investing activities	(4,765,185)	(4,007,605)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowing	5,335,862	-
Principal payments on long-term debt	(7,317,485)	(1,930,004)
Refundable U.S. government grant received	67,846	60,534
Contributions restricted for long-term investment	2,259,308	2,864,282
Investment earnings restricted for long-term purposes	512,180	431,125
Distributions to beneficiaries	(1,174,327)	(1,159,741)
Net cash provided by (used in) financing activities	(316,616)	266,196
Increase (decrease) in cash and cash equivalents	9,488	(1,160,670)
Cash and Cash Equivalents:		
Beginning of year	455,317	1,615,987
End of year	\$ 464,805	\$ 455,317
Supplemental Disclosure of Cash Flow Information, cash paid for interest	\$ 3,528,095	\$ 3,569,653
Supplemental Disclosure of Noncash Investing Activities, acquisition of property, plant and equipment through accounts payable	\$ 2,188,870	\$ 242,460

See Notes to Financial Statements.

University of Redlands

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

University of Redlands (the "University") is a nonprofit organization established to provide undergraduate and graduate educational services. The main campus is located in Redlands, California, with off-site courses offered at several locations in southern California.

Significant accounting policies:

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, temporary investments, student accounts receivable, other receivables and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of contribution and trust receivables approximate fair values because the present value discount is included in the carrying amount. The fair values of the student loans receivable approximate carrying value. Loans receivable and the related liability for refundable U.S. government student loans, in which the University acts as an agent for the U.S. government Perkins Loan Program, are subject to significant restrictions. Accordingly, it is not practical to determine the fair value of such amounts. The fair value of long-term investments is based upon quoted market prices or on information from external investment managers. The fair value of real property is disclosed in Note 5, which is based on third-party appraisals. The carrying amount of the actuarial liability for split-interest agreements approximates fair value based on life expectancies, quoted market prices and the present value discount included in the carrying amount. For the years ended June 30, 2012 and 2011, the fair value of the University's notes and bonds payable, which is estimated using discounted cash flow analyses based on estimated current market rates, was approximately \$89,428,000 and \$80,176,000, respectively.

Basis of presentation: The University's resources are classified for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions.

Descriptions of the three net asset categories and types of transactions affecting each category follow:

Unrestricted net assets — Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets — Net assets subject to donor-imposed stipulations or time restrictions that will be met either by actions of the University or the passage of time.

Permanently restricted net assets — Net assets subject to donor-imposed stipulations that they be permanently maintained by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

University of Redlands

Notes to Financial Statements

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

Revenue recognition: Tuition revenue is recognized as earned by delivery of educational services. Revenue from auxiliary enterprises is recognized when goods or services are provided. Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets. Gains and losses on endowment investments and other endowment assets are reported as increases or decreases in temporarily restricted net assets until appropriated by the Board of Trustees. Gains and losses on other investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law. Expirations of temporary restrictions are reported as reclassifications between the applicable classes of net assets and are reported as net assets released from restrictions in the statements of activities.

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 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.

Operating measurement: The University divides its statements of activities into operating and nonoperating activities. The operating activities of the University include all income and expenses related to carrying out its education and research mission. Operating revenues include investment income and investment gains used to fund current operations. The University's established spending policy for endowed investment income is equal to the board approved percentage of the twelve-quarter moving average of the average fair market value of the endowment investment.

Nonoperating activities include current year realized and unrealized gains (losses) on investments, net of the amount of endowment appreciation used to fund operations. Endowment appreciation used to fund operating and nonoperating activities is included in net assets released from restrictions as the Board has appropriated them. Nonoperating activities also include contributions for property and equipment and permanently restricted endowments, and change in value of split-interest agreements.

Contributions of long-lived assets: The University reports the contribution of long-lived assets without donor stipulations concerning the use of such assets as unrestricted net assets.

Simultaneous period contributions: The University has adopted a policy to classify donor-restricted contributions whose restrictions are met in the same reporting period initially as unrestricted contribution revenue.

Cash and cash equivalents: Cash and cash equivalents include cash and temporary cash investments whose use is not limited.

Temporary investments: Temporary investments are investments held in a highly liquid form that can be utilized as needed for operating and liquidity needs. Most of these temporary investments are money market funds which are carried at cost.

University of Redlands

Notes to Financial Statements

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

Student accounts and student loans receivable: Student 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 the unpaid principal. Both student accounts receivable and loans to students are net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by calculating a specific percent reserve on the aging of the accounts based on historical experiences and by identifying specific accounts which are doubtful of collection. Student accounts and student loans receivable are written off when deemed uncollectible. Recoveries of student accounts and student loans receivable previously written off are recorded when received. For the year ended June 30, 2012, the University had net charge-offs of \$8,109. For the year ended June 30, 2011, the University had net recoveries of \$13,144. No interest is charged on student accounts receivable for enrolled students.

Interest is charged and recognized on student loans receivable after a student is no longer enrolled as a full-time student and after a grace period. Late charges are imposed if payments are not made by the payment due date and are recognized as they are received. Students may be granted a deferment, forbearance or cancellation of their student loans 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.

Refundable U.S. government student loans: Amounts due to the U.S. government include advances under the Perkins Loan Program and the program's accumulated net income, as these funds are ultimately refundable to the U.S. government.

Split-interest agreements: The University accounts for gifts received in which the beneficial interest is shared with one or more other parties, referred to as split-interest agreements, as follows:

Assets held by the University —The assets are recorded at the fair market value of the assets contributed based on quoted market prices or appraised value at the date of the gift. An actuarial liability for trusts payable and pooled income funds are determined using the payout rate for each agreement and life expectancies derived from Internal Revenue Service (IRS) formulas. The liability for annuities payable is determined based on calculations mandated by the State of California. All split-interest agreement obligations are recorded at their discounted present value.

Assets held by others —The receivable for the University's interest is recorded at the discounted present value of the University's remainder interest. The fair value of trust assets, as provided by the donor at the time of gift and adjusted annually when reported by the trustee, is reduced for amounts due other beneficiaries based on the trust agreements and actuarial factors derived from IRS formulas.

The net interest in all split-interest agreements is determined annually based on revised fair value, actuarial and earnings data and the effect of terminated trusts and other agreements. The actuarial adjustment, net of payments to beneficiaries, is reported in the statements of activities as change in value of split-interest agreements.

University of Redlands

Notes to Financial Statements

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

Investments: Investments are generally recorded at fair value, except for real estate held for investment and other investments, which are carried at cost. Alternative investments, such as private equity and absolute return hedge funds consist primarily of investments that are not readily marketable. Investments in these categories are valued utilizing the most current information provided by the general partner or manager of the fund. Because these alternative investments are not readily marketable, their estimated value is subject to judgment 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 investments on a periodic basis in accordance with the provisions of the respective investment fund agreements. Under the terms of certain limited partnership agreements, the University is obligated periodically to advance additional funding for private equity investments (Note 15).

Inventories: Inventories are valued at the lower of cost (first-in first-out) or market.

Property, plant and equipment: Property, plant and equipment are stated at cost or, in the case of gifts, at the fair market value at the date of donation. 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. Depreciation is provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	3 - 20
Land improvements	5 - 25
Buildings and building improvements	5 - 40

Other assets: Other assets represent unamortized bond issuance costs. These costs are amortized using the interest method over the lives of the related debt.

Deferred revenue: Deferred revenue represents tuition from students billed and received in advance of attendance and other fees for future services.

Conditional asset retirement obligations: 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. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. 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 estimate annually, and adjusts the recorded liability as needed (Note 10).

Student financial aid: Student financial aid is offered by the University to attract and retain students. Financial aid is offered to students in the form of merit-based scholarships and need-based grants at the University's discretion. Student financial aid has been classified as a reduction of student revenues (Note 13).

University of Redlands

Notes to Financial Statements

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

Advertising costs: The University follows the policy of charging advertising costs to expense as incurred. Amounts paid for advertising in the years ended June 30, 2012 and 2011 were \$5,060,364 and \$4,794,182, respectively, which included costs for direct mail, radio, billboard, newsprint, publications and internet advertising.

Fund raising costs: The University incurred fund raising costs of approximately \$1,705,645 and \$1,609,708 during the years ended June 30, 2012 and 2011, respectively.

Income taxes: The University is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University is 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 the University's material tax positions, which include such matters as the tax exempt status of each entity 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 amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation with no effect on net assets or change in net assets.

Subsequent events: The University has considered subsequent events through November 19, 2012, the date of issuance in preparing the financial statements and notes thereto.

New accounting guidance: In May 2011, 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 International Financial Reporting Standards (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.

University of Redlands

Notes to Financial Statements

Note 2. Student Loans Receivable

The University's student loans receivable consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government in administering the loan program and an institutional loan fund created by the University to assist students in funding their education.

The University determined its allowance for estimated losses on these student loans by looking at historical default rates and analyzing the aging of the past due loans.

The aging of the student loan portfolio by classes of loans as of June 30, 2012 and 2011 is presented as follows:

Classes of Loans	Not in Repayment	Current	240 Days or Less Past Due	Greater Than 240 Days, But 2 Years or Less Past Due	Greater Than 2 Years, But 5 Years or Less Past Due	Greater Than 5 Years Past Due	Total
2012							
Federal Perkins Loans	\$ 2,589,469	\$ 1,678,061	\$ 332,203	\$ 177,028	\$ 237,619	\$ 148,687	\$ 5,163,067
Institutional Loans	2,160,583	5,548,623	635,991	466,121	470,804	52,285	9,334,407
	<u>\$ 4,750,052</u>	<u>\$ 7,226,684</u>	<u>\$ 968,194</u>	<u>\$ 643,149</u>	<u>\$ 708,423</u>	<u>\$ 200,972</u>	<u>\$ 14,497,474</u>
As a percentage of total loan portfolio	32.76%	49.85%	6.68%	4.44%	4.89%	1.38%	100.00%
2011							
Federal Perkins Loans	\$ 2,325,925	\$ 1,539,497	\$ 366,571	\$ 240,957	\$ 166,117	\$ 127,530	\$ 4,766,597
Institutional Loans	3,194,072	5,241,610	743,623	414,740	257,859	36,591	9,888,495
	<u>\$ 5,519,997</u>	<u>\$ 6,781,107</u>	<u>\$ 1,110,194</u>	<u>\$ 655,697</u>	<u>\$ 423,976</u>	<u>\$ 164,121</u>	<u>\$ 14,655,092</u>
As a percentage of total loan portfolio	37.67%	46.27%	7.58%	4.47%	2.89%	1.12%	100.00%

Changes in allowance for estimated losses on student loans in aggregate for the years ended June 30, 2012 and 2011 are presented as follows:

	2012	2011
Balance, beginning	\$ 1,145,000	\$ 1,115,000
Provisions charged to expense	51,787	26,940
Loans charged off	-	-
Recoveries on loans previously charged off	3,213	3,060
	<u>\$ 1,200,000</u>	<u>\$ 1,145,000</u>

University of Redlands

Notes to Financial Statements

Note 2. Student Loans Receivable (Continued)

The allowance for estimated losses on loans by portfolio segment as of June 30, 2012 and 2011 is presented as follows:

	Federal Perkins Loans	Institutional Loans	Total
	2012		
Allowance for loans collectively evaluated for impairment	\$ 365,000	\$ 835,000	\$ 1,200,000
Loans collectively evaluated for impairment	5,163,067	9,334,407	14,497,474
Allowance as a percentage of loans collectively evaluated for impairment	7.07%	8.95%	8.28%
	2011		
Allowance for loans collectively evaluated for impairment	\$ 345,000	\$ 800,000	\$ 1,145,000
Loans collectively evaluated for impairment	4,766,597	9,888,495	14,655,092
Allowance as a percentage of loans collectively evaluated for impairment	7.24%	8.09%	7.81%

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2012 and 2011:

	Federal Perkins Loans	Institutional Loans	Total
	2012		
Performing	\$ 4,267,530	\$ 7,709,206	\$ 11,976,736
Nonperforming	895,537	1,625,201	2,520,738
	<u>\$ 5,163,067</u>	<u>\$ 9,334,407</u>	<u>\$ 14,497,474</u>
	2011		
Performing	\$ 3,865,422	\$ 8,435,682	\$ 12,301,104
Nonperforming	901,175	1,452,813	2,353,988
	<u>\$ 4,766,597</u>	<u>\$ 9,888,495</u>	<u>\$ 14,655,092</u>

For student loans, the credit quality indicator is performance determined by delinquency status and, for Federal Perkins Loans, origination and servicing of the loan. Delinquency status is updated monthly by the University's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible, however, the University's policy has been to retain these loans as they are often collected years after they become delinquent.

University of Redlands

Notes to Financial Statements

Note 3. Contributions Receivable

Unconditional contributions are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Unconditional contributions are recorded at the present value of the future cash flows. An allowance is provided for amounts anticipated to be uncollectible.

Unconditional contributions as of June 30 are expected to be realized in the following periods:

	2012	2011
In one year or less	\$ 2,585,973	\$ 2,340,549
Less discount of \$284,466 and \$257,461 and allowance of \$161,108 and \$145,822 in 2012 and 2011, respectively	(445,574)	(403,283)
Current	<u>2,140,399</u>	<u>1,937,266</u>
Between one year and five years	3,137,678	4,252,280
More than five years	56,589	160,517
Less discount of \$730,552 and \$907,432 and allowance of \$172,460 and \$245,376 in 2012 and 2011, respectively	(903,012)	(1,152,808)
Long-term	<u>2,291,255</u>	<u>3,259,989</u>
Total contributions receivable	<u><u>\$ 4,431,654</u></u>	<u><u>\$ 5,197,255</u></u>

Contributions receivable as of June 30 have the following restrictions:

	2012	2011
Permanent endowment	\$ 1,572,964	\$ 2,535,969
Building construction	1,859,345	1,440,196
Department programs and activities, including unrestricted pledges for future periods	999,345	1,221,090
	<u><u>\$ 4,431,654</u></u>	<u><u>\$ 5,197,255</u></u>

As of June 30, 2012, the University had received conditional promises to give totaling \$1,233,334 which are not included in the financial statements. These conditional promises are gifts for department programs and scholarships.

As of June 30, 2012 and 2011, the University has related party pledge receivables of \$1,742,500 and \$1,938,340, respectively, primarily from board members and employees.

University of Redlands

Notes to Financial Statements

Note 4. Other Receivables

Other receivables consist of the following as of June 30:

	2012	2011
Conferences	\$ 227,160	\$ 459,371
Investment income	15,505	77,491
Grant receivables	282,612	308,683
Federal Direct Student Loans receivable	1,831,302	2,026,500
Loan and note receivable	70,000	70,000
Other	337,234	531,232
Total other receivables	\$ 2,763,813	\$ 3,473,277

Note 5. Investments

Where permitted by gift agreement or applicable government regulations, investments of the endowment, annuity and trust funds are pooled. Pools are formed to achieve stated investment objectives. The University has established a pool for total return within the endowment fund with the objective of producing a reasonable current return coupled with capital appreciation. Endowment unit ownership transactions of the pool are accounted for on a market value basis. Appraised values for real property gifted are obtained at the time of gift receipt; property is reappraised on a four-year cycle or more frequently as deemed appropriate by the University.

Investment policies, strategies, goals and asset allocation for the University are established by the Investment Committee of the Board of Trustees. During the year ended June 30, 2012, the Investment Committee of the Board of Trustees moved forward with engaging an outsourced chief investment officer by selecting Hirtle Callaghan & Co., LLC. Hirtle Callaghan invests the University's funds and assists in the development of investment policies, strategies and asset allocation as well as monitoring of the investment performance. The performance of the funds is reviewed by the University's management and the Investment Committee of the Board of Trustees. The transition from the former investment advisor to Hirtle Callaghan in the current year, involved liquidating \$76,000,000 of the investment portfolio. BNY Mellon serves as the custodian of the University's endowment assets. State Street Global Advisors is engaged to assist the University with the administration and investment of trust funds.

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Notes to Financial Statements

Note 5. Investments (Continued)

Summary schedules of investments by carrying value and market or appraised value as of June 30 are as follows:

Described by Asset Type	2012		2011	
	Carrying Value	Market or Appraised Value	Carrying Value	Market or Appraised Value
U.S. marketable equities	\$ 42,825	\$ 42,825	\$ 11,252,430	\$ 11,252,430
Limited partnerships with underlying securities in:				
Global marketable equities	-	-	23,616,361	23,616,361
U.S. marketable equities	-	-	3,539,305	3,539,305
Private equities	9,982,802	9,982,802	9,016,413	9,016,413
Multi-hedge strategies	17,019,795	17,019,795	16,405,580	16,405,580
Inflation hedging	6,627,146	6,627,146	14,133,223	14,133,223
Private investments mutual funds with underlying securities in:				
Global marketable equities	18,874,167	18,874,167	-	-
U.S. marketable equities	18,479,224	18,479,224	-	-
Inflation hedging	5,793,529	5,793,529	-	-
Fixed income	7,857,145	7,857,145	-	-
Cash equivalent mutual funds	3,424,766	3,424,766	-	-
Bond mutual funds	-	-	13,103,993	13,103,993
Common trust funds	23,176,286	23,176,286	23,750,035	23,750,035
Real property	9,528,591	11,474,189	9,088,911	12,394,429
Other investments	423,395	808,873	974,916	1,380,558
Total	\$ 121,229,671	\$ 123,560,747	\$ 124,881,167	\$ 128,592,327

Common trust funds represent trust funds established by donors of the University. The investments held within the trusts include U.S. and global marketable equity securities funds and other bond funds. Alternative investments are investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications. Alternative investments may be structured as limited partnerships, limited liability companies, trusts or corporations. As noted above, some of these alternative investments are funds of marketable equities that are listed on national exchanges or over-the-counter markets.

University of Redlands

Notes to Financial Statements

Note 5. Investments (Continued)

Summary schedules of investments by carrying value and market or appraised value as of June 30 are as follows:

Described by Funding Group	2012		2011	
	Carrying Value	Market or Appraised Value	Carrying Value	Market or Appraised Value
Endowment fund (Note 7)	\$ 97,771,441	\$ 100,102,517	\$ 100,668,109	\$ 104,379,269
Trust, annuity and life income funds*	23,365,405	23,365,405	23,939,154	23,939,154
Other funds	92,825	92,825	273,904	273,904
Total	\$ 121,229,671	\$ 123,560,747	\$ 124,881,167	\$ 128,592,327

* Trust, annuity and life income funds include, in addition to investments held by the University, certain interests in trusts held by others. The beneficial interest in these trusts, as discussed in Note 7, is shown separately in the financial statements as \$1,169,372 and \$1,059,526 as of June 30, 2012 and 2011, respectively.

Investment return for the years ended June 30 is as follows:

	2012	2011
Investment income	\$ 611,071	\$ 854,143
Net realized (losses) on investments reported at other than fair value	(36,550)	-
Net gains (losses) on investments reported at fair value	(998,306)	18,122,619
Total investment return	(423,785)	18,976,762
Less investment return designated for current operations and restricted funds	402,784	530,379
Investment return net of amounts designated for current operations	\$ (826,569)	\$ 18,446,383

University of Redlands

Notes to Financial Statements

Note 6. Fair Value Measurements

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 fund manager 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 fund and monthly or quarterly statements received from the fund manager. These investments would have significant redemption and other restrictions that would limit the University's 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 U.S. government 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 and are classified within level 2 of the valuation hierarchy. Level 2 securities would include U.S. agency securities, and certain corporate, 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 obtains fair value for its level 3 securities from the fund managers. The fund managers use various models, comparisons and assumptions to estimate fair value. Consideration is given to the type of investment, risks, marketability, restrictions, dispositions and quotations from other market participants.

Trust receivables: The value of certain trust receivables held by the University is derived from the underlying investments of the trusts. The value of those investments is determined in the same manner as investments described above. The University owns an interest in the trusts and not the underlying investments. The estimated future value of that interest in the trusts is based on management's estimate of the trusts' expected performance which is present valued back to the date of the financial statements based on life expectancy factors.

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

University of Redlands

Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

Assets recorded at fair value on a recurring basis:

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 Measurements as of June 30, 2012 Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Global marketable equities funds	\$ 18,874,167	\$ 18,874,167	\$ -	\$ -
U.S. marketable equities funds:				
Large cap	8,674,511	8,674,511	-	-
Other	9,847,538	9,847,538	-	-
Private equities	9,982,802	-	-	9,982,802
Multi-hedge strategies	17,019,795	-	-	17,019,795
Inflation hedging	12,420,675	5,793,529	-	6,627,146
Fixed income	7,857,145	7,857,145	-	-
Cash equivalent mutual fund	3,424,766	3,424,766	-	-
Common trust funds:				
U.S. treasury and agency bonds	1,241,813	-	1,241,813	-
U.S. bond mutual funds	6,243,722	1,389,536	4,854,186	-
U.S. equity funds:				
Large cap	8,107,935	8,107,935	-	-
Other	3,354,389	3,159,811	194,578	-
Inflation hedging	620,506	620,506	-	-
Global marketable equities funds	3,325,964	3,325,964	-	-
Other	281,957	-	281,957	-
	<u>\$ 111,277,685</u>	<u>\$ 71,075,408</u>	<u>\$ 6,572,534</u>	<u>\$ 33,629,743</u>
Trust receivables	\$ 1,169,372	\$ -	\$ -	\$ 1,169,372

Investments above do not include \$9,951,986 of real estate and other investments carried at cost.

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

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Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

	Fair Value Measurements as of June 30, 2011 Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Global marketable equities funds	\$ 23,616,361	\$ -	\$ 23,616,361	\$ -
U.S. marketable equities funds:				
Large cap	11,252,430	11,252,430	-	-
Other	3,539,305	-	3,539,305	-
Private equities	9,016,413	-	-	9,016,413
Multi-hedge strategies	16,405,580	-	-	16,405,580
Inflation hedging	14,133,223	-	6,138,512	7,994,711
U.S. bond mutual fund	10,071,128	10,071,128	-	-
Global bond mutual fund	3,032,865	-	3,032,865	-
Common trust funds:				
U.S. treasury and agency bonds	1,316,217	-	1,316,217	-
U.S. bond mutual funds	7,911,088	1,452,605	6,458,483	-
U.S. equity funds:				
Large cap	8,043,650	8,043,650	-	-
Other	1,996,653	1,795,401	201,252	-
Inflation hedging	627,802	627,802	-	-
Global marketable equities funds	3,636,711	3,636,711	-	-
Other	217,914	-	217,914	-
	<u>\$ 114,817,340</u>	<u>\$ 36,879,727</u>	<u>\$ 44,520,909</u>	<u>\$ 33,416,704</u>
Trust receivables	\$ 1,059,526	\$ -	\$ -	\$ 1,059,526

Investments above do not include \$10,063,827 of real estate and other investments carried at cost.

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Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

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

	2012			
	Investments			
	Private Equities	Multi-Hedge Strategies	Inflation Hedge	Trust Receivables
Balance, beginning	\$ 9,016,413	\$ 16,405,580	\$ 7,994,711	\$ 1,059,526
Total gains or losses (realized/unrealized) included in change in net assets	590,932	(550,363)	333,920	-
Purchases	1,264,550	14,100,000	825,100	-
Sales	-	(12,844,599)	(2,061,182)	-
Expenses	(324,640)	(90,823)	(171,718)	-
Return of capital	(564,453)	-	(293,685)	-
Change in value of split-interest agreement	-	-	-	109,846
Balance, ending	<u>\$ 9,982,802</u>	<u>\$ 17,019,795</u>	<u>\$ 6,627,146</u>	<u>\$ 1,169,372</u>
Total gains or losses included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at fiscal year-end	<u>\$ 590,932</u>	<u>\$ 80,692</u>	<u>\$ 452,001</u>	<u>\$ -</u>
	2011			
	Investments			
	Private Equities	Multi-Hedge Strategies	Inflation Hedge	Trust Receivables
Balance, beginning	\$ 7,148,426	\$ 16,285,206	\$ 6,078,497	\$ 1,490,113
Total gains or losses (realized/unrealized) included in change in net assets	1,237,232	1,443,785	1,196,033	-
Purchases	1,234,250	3,000,000	964,000	-
Sales	-	(4,195,600)	-	-
Expenses	(262,729)	(127,811)	(44,322)	-
Return of capital	(340,766)	-	(199,497)	-
Change in value of split-interest agreement	-	-	-	(430,587)
Balance, ending	<u>\$ 9,016,413</u>	<u>\$ 16,405,580</u>	<u>\$ 7,994,711</u>	<u>\$ 1,059,526</u>
Total gains or losses included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at fiscal year-end	<u>\$ 1,237,232</u>	<u>\$ 1,148,523</u>	<u>\$ 1,196,033</u>	<u>\$ -</u>

University of Redlands

Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

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

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:

	June 30, 2012		June 30, 2011		Redemption Frequency	Redemption Notice Period
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment		
Investments:						
Global marketable equities funds (A)	\$ -	\$ -	\$ 23,616,361	\$ -	Daily	Trade Date less 5 Days
U.S. marketable equities (B)	-	-	3,539,305	-	Daily	Trade Date less 10 Days
Private equities (C)	9,982,802	3,003,894	9,016,413	4,268,444	N/A	N/A
Multi-hedge strategies (D)	17,019,795	-	16,405,580	-	Quarterly	Trade Date less 60 Days
Inflation hedging (E)	6,627,146	1,466,150	14,133,223	2,309,750	N/A	N/A
Global bond mutual fund (F)	-	-	3,032,865	-	Daily	Trade Date less 5 Days
Charitable bond trust fund (G)	4,854,186	-	6,458,483	-	Daily	Trade Date less 5 Days
	<u>\$ 38,483,929</u>	<u>\$ 4,470,044</u>	<u>\$ 76,202,230</u>	<u>\$ 6,578,194</u>		

- (A) The fund invests in international equities that are all exchange traded in other countries outside of the United States of America (USA). These funds can be redeemed at the month end net asset value per share based on the fair value of the underlying assets. Fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager. Redemption notice period is generally trade date less five days.
- (B) These funds invest in marketable equities that are all exchange traded in the USA. These funds can be redeemed at the month end net asset value per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager.
- (C) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: venture capital partnerships, buyout partnerships, mezzanine/subordinated debt partnerships, restructuring/distressed debt partnerships and special situation partnerships. These investments cannot be redeemed during the life of the partnership which can be up to 12 years; however they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the fund are liquidated over time. The fair value of this investment has been estimated using the net asset value provided by the fund manager and any adjustments determined by management for the time period between the date of the last statement.
- (D) These investments are hedge funds of funds. The investments within these funds utilize the following strategies: hedged equity, market dependent, event driven and market independent. These funds are valued on a monthly basis. However withdrawals can only be made at the quarter end. The fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager.
- (E) The partnerships in this category consist of funds that invest in the following types of investments in the USA and outside of the USA: inflation hedging including, natural resource funds of funds, non-energy commodities, energy funds and REIT funds. These investments cannot be redeemed during the life of the partnership which can be up to 12 years; however they can be transferred to another eligible investor. Distributions will be received as the underlying investments of the fund are liquidated over time. The fair value of this investment has been estimated using the net asset value provided by the fund manager.

University of Redlands

Notes to Financial Statements

Note 6. Fair Value Measurements (Continued)

- (F) These funds invest in marketable global bonds that are all exchanged traded outside the USA. These funds can be redeemed daily at the net asset value per share based on the fair value of the underlying assets. The fair values of these investments have been estimated using the net asset value per share of the investments provided by the fund manager.
- (G) This fund invests in mortgage-backed, U.S. Treasury, agency, corporate and other bonds. It can be redeemed daily at the net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investment provided by the fund manager.

Note 7. Endowment Funds and Net Asset Classification

The University's endowment fund consists of various donor restricted endowment funds and life income funds and funds designated as quasi-endowment, by the Board of Trustees.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 California 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, University of Redlands 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, (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 present value of estimated future receipts for life income funds and (e) subsequent changes in the value of the University's share of assets in life income funds. 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 California 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.

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 protecting 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 8%; 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 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 of the average market value of the endowment investments for the three preceding years.

University of Redlands

Notes to Financial Statements

Note 7. Endowment Funds and Net Asset Classification (Continued)

For the year ended June 30, 2012, the actual expenditures from endowment funds and earnings for support of operations were \$5,029,785. The following schedule summarizes the actual spending rate for operations for the year ended June 30, 2012 with comparative amounts for the preceding four years:

	Spending Rate
Year ended June 30:	
2012	4.54%
2011	5.00
2010	5.00
2009	6.20
2008	6.07

Assets of the endowment fund as of June 30 consist of the following:

	2012	2011
Contributions receivable, net (Note 3)	\$ 1,572,964	\$ 2,535,969
Investments (Note 5)	97,771,441	100,668,109
Life income funds (included in investments)	6,001,897	5,831,240
Other, primarily due from other University internal funds, net	2,173,888	2,508,021
Carrying value of endowment funds	107,520,190	111,543,339
Net adjustment to reflect market or appraised value of real estate and other assets *	2,331,076	3,711,160
Market or appraised value of endowment funds	\$ 109,851,266	\$ 115,254,499

* Certain assets of the endowment fund are carried at cost or fair market value at the date of donation. This amount represents the difference between the carrying amount of the assets and the fair value of the assets.

Certain assets of the endowment fund are pooled on a fair value basis. Each participating fund enters and withdraws from the investment account based on quarterly unit market values.

The market or appraised value of endowment funds as of June 30 have been categorized as follows:

	2012	2011
True Endowment (permanently restricted)	\$ 87,697,055	\$ 86,092,620
True Endowment accumulated income and unrealized gains	18,894,392	22,365,093
Quasi-Endowment (board designated and underwater endowments)	3,259,819	6,796,786
	\$ 109,851,266	\$ 115,254,499

University of Redlands

Notes to Financial Statements

Note 7. Endowment Funds and Net Asset Classification (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2012				
Donor-restricted endowment funds:				
Scholarship support	\$ (1,645,438)	\$ 6,061,003	\$ 31,737,101	\$ 36,152,666
Educational activities support	(2,743,718)	4,706,482	34,015,998	35,978,762
General institutional support	(502,130)	8,126,907	15,942,059	23,566,836
Donor-restricted life income funds:				
Scholarship support	-	-	2,058,369	2,058,369
Educational activities support	-	-	3,667,658	3,667,658
General institutional support	-	-	275,870	275,870
Board-designated (quasi-) endowment funds:				
Scholarship support	506,930	-	-	506,930
General institutional support	5,313,099	-	-	5,313,099
Total endowment funds	\$ 928,743	\$ 18,894,392	\$ 87,697,055	\$ 107,520,190
2011				
Donor-restricted endowment funds:				
Scholarship support	\$ (958,626)	\$ 7,404,151	\$ 32,165,016	\$ 38,610,541
Educational activities support	(1,705,055)	5,651,833	32,254,658	36,201,436
General institutional support	(340,803)	9,309,109	15,841,706	24,810,012
Donor-restricted life income funds:				
Scholarship support	-	-	2,042,198	2,042,198
Educational activities support	-	-	3,570,843	3,570,843
General institutional support	-	-	218,199	218,199
Board-designated (quasi-) endowment funds:				
Scholarship support	535,895	-	-	535,895
General institutional support	5,554,215	-	-	5,554,215
Total endowment funds	\$ 3,085,626	\$ 22,365,093	\$ 86,092,620	\$ 111,543,339

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Notes to Financial Statements

Note 7. Endowment Funds and Net Asset Classification (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
	2012			
Endowment net assets, beginning of year	\$ 3,085,626	\$ 22,365,093	\$ 80,261,380	\$ 105,712,099
Life income funds net assets, beginning of year	-	-	5,831,240	5,831,240
Subtotal	3,085,626	22,365,093	86,092,620	111,543,339
Investment return:				
Endowment fund investment income	-	709,129	-	709,129
Life income funds investment income	-	-	373,943	373,943
Endowment fund net appreciation (depreciation) (realized and unrealized)	(605,736)	(762,798)	-	(1,368,534)
Life income funds net appreciation (depreciation) (realized and unrealized)	-	-	(38,720)	(38,720)
Total investment return	(605,736)	(53,669)	335,223	(324,182)
Endowment fund contributions	61,606	-	812,111	873,717
Endowment fund grants and contracts	-	-	621,667	621,667
Life income funds contributions (terminations), net	-	-	15,000	15,000
Appropriation of endowment funds for expenditure	(1,612,753)	(3,417,032)	-	(5,029,785)
Change in value of life income funds	-	-	(179,566)	(179,566)
Endowment net assets, end of year	928,743	18,894,392	81,695,158	101,518,293
Life income funds net assets, end of year	-	-	6,001,897	6,001,897
Total	\$ 928,743	\$ 18,894,392	\$ 87,697,055	\$ 107,520,190

University of Redlands

Notes to Financial Statements

Note 7. Endowment Funds and Net Asset Classification (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2011			
Endowment net assets, beginning of year	\$ (581,621)	\$ 16,523,992	\$ 74,730,227	\$ 90,672,598
Life income funds net assets, beginning of year	-	-	5,804,322	5,804,322
Subtotal	(581,621)	16,523,992	80,534,549	96,476,920
Investment return:				
Endowment fund investment income	-	610,315	-	610,315
Life income funds investment income	-	-	346,770	346,770
Endowment fund net appreciation (depreciation) (realized and unrealized)	3,667,247	10,942,100	-	14,609,347
Life income funds net appreciation (depreciation) (realized and unrealized)	-	-	1,887,186	1,887,186
Total investment return	3,667,247	11,552,415	2,233,956	17,453,618
Endowment fund contributions	-	33,169	5,531,153	5,564,322
Life income funds contributions (terminations), net	-	-	15,000	15,000
Appropriation of endowment funds for expenditure	-	(5,744,483)	-	(5,744,483)
Change in value of life income funds	-	-	(2,222,038)	(2,222,038)
Endowment net assets, end of year	3,085,626	22,365,093	80,261,380	105,712,099
Life income funds net assets, end of year	-	-	5,831,240	5,831,240
Total	\$ 3,085,626	\$ 22,365,093	\$ 86,092,620	\$ 111,543,339

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, the University's donor restricted endowment funds were underwater by \$4,891,286 and \$3,004,484, respectively. These amounts are reported as a reduction of 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 2011 for certain programs was prudent.

University of Redlands

Notes to Financial Statements

Note 8. Split-Interest Agreements

Amounts recorded by the University under the terms of split-interest agreements consist of the following as of June 30:

	2012	2011
Assets held by the University, included in investments	\$ 23,365,405	\$ 23,939,154
Assets held by others, included in trust receivables	1,169,372	1,059,526
Total assets under split-interest agreements	\$ 24,534,777	\$ 24,998,680
Actuarial liability for trusts payable	\$ 11,529,979	\$ 12,060,251
Legal reserve for annuities payable	1,778,301	1,725,236
Unearned revenue under pooled income fund agreements	303,357	320,401
Total liabilities for split-interest agreements	\$ 13,611,637	\$ 14,105,888

Assets held in trust by others include cash, mutual funds, fixed income instruments, common stock, trust deeds and real estate. The discount rate used to determine the present value of obligations to other beneficiaries was 6% as of June 30, 2012 and 2011.

Note 9. Property, Plant and Equipment

Property, plant and equipment consist of the following as of June 30:

	2012	2011
Land and land improvements	\$ 9,881,868	\$ 9,571,118
Buildings	212,911,313	212,180,450
Equipment	43,353,878	41,872,995
	266,147,059	263,624,563
Less accumulated depreciation	(131,679,140)	(122,337,399)
	134,467,919	141,287,164
Construction in progress	4,032,845	391,061
	\$ 138,500,764	\$ 141,678,225

University of Redlands

Notes to Financial Statements

Note 10. Conditional Asset Retirement Obligations

Under current accounting standards guidance, an entity must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. The fair value of a liability for a legal obligation associated with an asset retirement is required to be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. The capitalized cost for property and equipment was fully depreciated upon adoption of this standard.

Substantially all of the University's conditional asset retirement obligation relates to the estimated cost to remove asbestos and lead paint from campus facilities. The future value of the asset retirement obligation as of June 30, 2012 is estimated to be approximately \$3,293,000. The liability was estimated for the years ended June 30, 2012 and 2011 using an inflation rate of 3.0%. Because accounting standards require retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 4.1%.

Changes in the accrual for asset retirement obligation during the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Beginning accrual	\$ 2,782,678	\$ 2,667,868
Accretion of asset retirement liability	71,154	114,810
Ending accrual	<u>\$ 2,853,832</u>	<u>\$ 2,782,678</u>

Note 11. Bonds and Notes Payable

Bonds and notes payable consist of the following as of June 30:

	2012	2011
Notes payable	\$ 5,615,862	\$ 6,007,485
Bonds payable	72,279,575	73,920,567
	<u>\$ 77,895,437</u>	<u>\$ 79,928,052</u>

Interest expense, net of capitalized interest, relating to long-term debt amounted to \$3,584,339 and \$3,626,497 for the years ended June 30, 2012 and 2011, respectively.

University of Redlands

Notes to Financial Statements

Note 11. Bonds and Notes Payable (Continued)

Notes payable consist of the following as of June 30:

	2012	2011
Bank note payable, unsecured, payable in monthly installments of \$29,976, plus interest at a fixed annual rate of 2.23% with a balloon payment of \$3,627,194 in March 2017	\$ 5,335,862	\$ -
Bank note payable, unsecured, payable in monthly installments of \$29,167, plus interest at the LIBOR rate plus .50% with a balloon payment of \$5,249,980 in September 2012	-	5,687,485
Bon Appétit note payable, non-interest bearing, unsecured, for improvement of food service facility. Principal is payable in annual installments of \$40,000 through June 2019. The unpaid portion of the loan would become due and payable if the University were to discontinue an agreement with Bon Appétit to manage and operate the University's food service.	280,000	320,000
	<u>\$ 5,615,862</u>	<u>\$ 6,007,485</u>

Bonds payable consist of the following as of June 30:

	2012	2011
\$17,280,000, 2003 CEFA Revenue Bonds Series A payable in annual installments ranging from \$330,000 to \$1,025,000, plus interest ranging from 1.1% to 5.0%, until maturity in June 2033. The unamortized bond premium of \$111,096 is being amortized over the bond term using the interest method.	\$ 14,106,096	\$ 14,524,701
\$17,000,000, 2003 CEFA Revenue Bonds Series B payable in annual installments ranging from \$440,000 to \$1,125,000, plus interest ranging from 2.0% to 5.0%, until maturity in October 2025. The unamortized bond premium of \$85,404 is being amortized over the bond term using the interest method.	12,360,404	13,041,198
\$27,180,000, 2005 CEFA Revenue Bond Series A payable in annual installments ranging from \$400,000 to \$2,500,000, plus interest at 5.0%, until maturity in October 2035. The unamortized bond premium of \$842,413 is being amortized over the bond term using the interest method.	25,282,413	25,849,932
\$21,125,000, 2008 CEFA Revenue Bond Series A payable in annual installments ranging from \$720,000 to \$4,225,000, plus interest ranging from 5.0% to 5.125%, until maturity in August 2038. The unamortized bond discount of \$594,338 is being amortized over the bond term using the interest method.	20,530,662	20,504,736
	<u>\$ 72,279,575</u>	<u>\$ 73,920,567</u>

University of Redlands

Notes to Financial Statements

Note 11. Bonds and Notes Payable (Continued)

Future maturities of notes and bonds payable at June 30, 2012 are as follows:

	Notes Payable	Bonds Payable	Total
Year ending June 30:			
2013	\$ 399,721	\$ 1,650,000	\$ 2,049,721
2014	399,721	1,725,000	2,124,721
2015	399,721	1,790,000	2,189,721
2016	399,721	1,880,000	2,279,721
2017	3,936,978	1,960,000	5,896,978
Thereafter	80,000	62,830,000	62,910,000
	<u>5,615,862</u>	<u>71,835,000</u>	<u>77,450,862</u>
Unamortized bond premium and discount, net	-	444,575	444,575
	<u>\$ 5,615,862</u>	<u>\$ 72,279,575</u>	<u>\$ 77,895,437</u>

The bank notes payable above include certain financial covenants, including a fixed charge ratio and a liquidity minimum.

Note 12. Net Assets

Unrestricted net assets as of June 30 are classified as:

	2012	2011
Operations and designated purposes	\$ 2,987,908	\$ 1,816,392
Funds functioning as endowment (quasi-endowment)	5,820,029	6,090,111
Donor-restricted endowment funds (underwater)	(4,891,286)	(3,004,484)
Plant facilities	51,298,775	55,253,570
	<u>\$ 55,215,426</u>	<u>\$ 60,155,589</u>

Temporarily restricted net assets are available for the following as of June 30:

	2012	2011
Instruction, academic and institutional support	\$ 22,241,900	\$ 25,107,865
Life income funds	4,365,456	4,593,769
Property, plant and equipment	3,853,722	2,467,113
	<u>\$ 30,461,078</u>	<u>\$ 32,168,747</u>

University of Redlands

Notes to Financial Statements

Note 12. Net Assets (Continued)

Permanently restricted net assets consist of the following as of June 30:

	2012	2011
Investments in perpetuity, income available to support:		
Student loans	\$ 9,068,288	\$ 8,950,905
Endowment:		
General endowment	81,695,158	80,261,380
Life income funds	6,001,897	5,831,240
	<u>\$ 96,765,343</u>	<u>\$ 95,043,525</u>

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors or by Board appropriation for the years ended June 30 were as follows:

	2012	2011
Instruction, academic and institutional support	\$ 3,981,782	\$ 8,245,830
Expenditures for property, plant and equipment	421,268	680,644
	<u>\$ 4,403,050</u>	<u>\$ 8,926,474</u>

Note 13. Net Student Revenues

Student revenues for the years ended June 30, 2012 and 2011 consist of the following:

	2012	2011
Tuition and fees	\$ 123,192,798	\$ 112,417,262
Room and board	18,947,638	17,664,258
Gross student revenues	<u>142,140,436</u>	<u>130,081,520</u>
Less student financial aid	(45,836,493)	(40,475,376)
Net student revenues	<u>\$ 96,303,943</u>	<u>\$ 89,606,144</u>

Note 14. Employee Benefit Plan

Retirement benefits are provided for full-time employees through a defined contribution plan. Contributions for eligible employees are based on 7% of annual compensation. The University's cost was \$2,621,869 and \$2,151,548 for the years ended June 30, 2012 and 2011, respectively.

University of Redlands

Notes to Financial Statements

Note 15. Commitments and Contingencies

Private investment capital call:

As of June 30, 2012, the University had commitments for private investments (private equity and venture capital) of approximately \$4,470,044 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

Lease commitments:

The University leases off-campus facilities for use in degree programs. For the years ended June 30, 2012 and 2011, rental expenses of operating leases amounted to \$1,586,547 and \$1,758,528, respectively. One of the facilities leases (Salzburg, Austria) calls for future rentals to be increased or decreased based on a cost-of-living index, *VPI 1996*, published by the Austrian Bureau of Statistics.

The University also entered into leases for certain computer equipment during the year ended June 30, 2012. Rental expense for these leases was \$379,326 for the year ended June 30, 2012. These leases expire in 2014, 2015 and 2016.

As of June 30, 2012, future minimum rents due under these noncancelable operating leases are as follows:

Year ending June 30:	
2013	\$ 1,944,563
2014	1,886,505
2015	1,685,384
2016	1,200,025
2017	987,191
Thereafter	618,924
	<u>\$ 8,322,592</u>

Facility commitments:

The University engaged in the renovation of the Hunsaker University Center and the Food Services dining facilities both scheduled to be completed August of the 2013 fiscal year. The remaining commitments on contracts to complete the renovations are approximately \$2,963,359.

Purchased utility commitments:

The University has entered into several fixed price contracts for natural gas and electricity totaling \$4,491,702 with contract expiration dates ranging from June 30, 2012 through June 30, 2017. The contracts allow for any unused volume to be sold back to the supplier at daily market rates.

Contingencies:

In the normal course of business, the University is subject to legal claims. After consultation with the University's legal counsel, management of the University is of the opinion that liabilities, if any, arising from such claims would not have a material effect on the University's financial position.

University of Redlands

Notes to Financial Statements

Note 15. Commitments and Contingencies (Continued)

Line and letters of credit:

The University has established an \$8,000,000 line of credit, with interest at 0.90% plus 1-month LIBOR rate of amount drawn. The line of credit matures in March 31, 2013. As of June 30, 2012 the total amount available on the line of credit had been reduced by one irrevocable unsecured letter of credit totaling \$595,000 for workers compensation. No amounts have been drawn on the line or letter of credit as of June 30, 2012.

Note 16. Concentration of Credit Risk

As of June 30, 2012, the University has deposits in financial institutions which, at times, may exceed federal deposit insurance corporation limits. The University has not experienced any loss as a result of these deposits and does not expect any in the future.

Note 17. Risk Pool

The University is a member of the College Liability Insurance Company, Ltd. (CLIC), an association formed by ten similar independent western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a \$2,000,000 standby letter of credit, of which the University will be contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverage, the maximum contingent liability exposure to the University will be approximately \$310,375 for the fiscal year ended June 30, 2012.

The University is insured for liability through CLIC for claims up to \$500,000. Excess coverage is provided through a policy with United Educators.

Note 18. Subsequent Event

In July 2012, the University entered into an additional note payable with a bank for \$2,500,000 payable in monthly installments of \$14,368, plus interest at a fixed rate of 2.10% with a balloon payment of \$1,712,762 on March 31, 2017. This note is unsecured.