ALFRED UNIVERSITY

Financial Statements
as of June 30, 2012 and 2011
Together with
Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 26, 2012

To the Board of Trustees of
Alfred University:

We have audited the accompanying balance sheets of Alfred University (a New York not-for-profit corporation) (the University) as of June 30, 2012 and 2011, and the related statements of activities and change in net assets 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Alfred 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bonadio & Co., LLP

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

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ALFRED UNIVERSITY

BALANCE SHEETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,446,763	$ 3,284,298
Student accounts receivable, net of allowance for doubtful accounts of $44,000 and $62,000 in 2012 and 2011, respectively	370,599	538,683
Inventories and other assets	1,292,988	1,282,961
Contributions receivable, net	1,329,836	1,578,404
Notes and other accounts receivable, net of allowance for doubtful accounts of approximately $1,144,000 and $441,000 in 2012 and 2011, respectively	17,960,530	16,439,496
Investments	92,407,998	96,137,288
Grounds, buildings and equipment, net	126,605,241	117,888,041
Total assets	$ 241,413,955	$ 237,149,171
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 5,918,633	$ 5,715,812
Deferred revenue and deposits	1,409,582	1,820,975
Asset retirement obligation	1,950,972	1,840,540
Postretirement benefit obligation	22,638,070	18,295,302
Annuities payable	1,239,013	1,372,758
Long-term debt	17,365,564	19,869,782
U.S. government refundable grants	2,944,532	2,977,405
Total liabilities	53,466,366	51,892,574
NET ASSETS:		
Unrestricted	103,713,804	98,558,043
Temporarily restricted	27,111,062	31,169,785
Permanently restricted	57,122,723	55,528,769
Total net assets	187,947,589	185,256,597
Total liabilities and net assets	$ 241,413,955	$ 237,149,171

The accompanying notes are an integral part of these statements.

ALFRED UNIVERSITY

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Student revenues -				
Tuition and fees	$ 50,726,319	$ -	$ -	$ 50,726,319
Residence and dining	14,853,411	-	-	14,853,411
Less: Financial aid - institutional	(23,120,133)	-	-	(23,120,133)
Less: Financial aid - government and donor	(5,948,618)	-	-	(5,948,618)
Total student revenues	36,510,979	-	-	36,510,979
Federal grants and contracts	5,211,762	-	-	5,211,762
State of New York grants and contracts	12,980,561	-	-	12,980,561
Private gifts, grants, and contracts	1,264,519	1,253,569	-	2,518,088
Auxiliary enterprises - other	990,792	-	-	990,792
Educational activities	400,946	-	-	400,946
Other revenues	1,670,965	-	-	1,670,965
Investment income and restricted releases allocated for operations	4,388,199	-	-	4,388,199
Other investment income	11,144	-	-	11,144
Net assets released from restrictions for operating purposes	1,829,583	(1,829,583)	-	-
Total operating revenues	65,259,450	(576,014)	-	64,683,436
OPERATING EXPENSES:				
Instruction and public service	26,722,568	-	-	26,722,568
Institutional support	11,832,897	-	-	11,832,897
Student services	9,090,004	-	-	9,090,004
Auxiliary enterprises	8,290,210	-	-	8,290,210
Academic support	7,044,733	-	-	7,044,733
Research	3,927,465	-	-	3,927,465
Total operating expenses	66,907,877	-	-	66,907,877
Change in net assets from operating activities	(1,648,427)	(576,014)	-	(2,224,441)
NONOPERATING ACTIVITIES:				
Long-term investment activities -				
Interest and dividends (net of investment fees)	1,106,276	-	-	1,106,276
Net realized and unrealized (losses) gains	(2,041,840)	655,707	-	(1,386,133)
Total long-term investment activities	(935,564)	655,707	-	(279,857)
Investment income and restricted releases allocated for operations	(759,362)	(3,628,837)	-	(4,388,199)
Capital gifts and grants	12,083,291	405,123	806,709	13,295,123
Other nonoperating activities, net	61,609	-	-	61,609
Postretirement benefit related changes other than net periodic benefit cost	(4,078,470)	-	-	(4,078,470)
Gain on postretirement plan termination	325,287	-	-	325,287
Change in valuation of annuities	-	(772,833)	752,773	(20,060)
Clarification of donor intent	12,969	(47,441)	34,472	-
Net assets released from restrictions for nonoperating purposes	94,428	(94,428)	-	-
Change in net assets from nonoperating activities	6,804,188	(3,482,709)	1,593,954	4,915,433
CHANGE IN NET ASSETS	5,155,761	(4,058,723)	1,593,954	2,690,992
NET ASSETS - beginning of year	98,558,043	31,169,785	55,528,769	185,256,597
NET ASSETS - end of year	$ 103,713,804	$ 27,111,062	$ 57,122,723	$ 187,947,589

The accompanying notes are an integral part of these statements.

ALFRED UNIVERSITY

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES:				
Student revenues -				
Tuition and fees	$ 48,326,450	$ -	$ -	$ 48,326,450
Residence and dining	14,584,815	-	-	14,584,815
Less: Financial aid - institutional	(21,194,062)	-	-	(21,194,062)
Less: Financial aid - government and donor	(6,515,201)	-	-	(6,515,201)
Total student revenues	35,202,002	-	-	35,202,002
Federal grants and contracts	5,862,502	-	-	5,862,502
State of New York grants and contracts	16,383,908	-	-	16,383,908
Private gifts, grants and contracts	1,280,744	1,514,794	-	2,795,538
Auxiliary enterprises - other	996,173	-	-	996,173
Educational activities	440,306	-	-	440,306
Other revenues	1,579,774	-	-	1,579,774
Long-term investment income and gains allocated for operations	5,279,378	-	-	5,279,378
Other investment income	12,635	-	-	12,635
Net assets released from restrictions for operating purposes	1,791,127	(1,791,127)	-	-
Total operating revenues	68,828,549	(276,333)	-	68,552,216
OPERATING EXPENSES:				
Instruction and public service	27,158,426	-	-	27,158,426
Institutional support	11,648,684	-	-	11,648,684
Student services	8,975,786	-	-	8,975,786
Auxiliary enterprises	8,294,440	-	-	8,294,440
Academic support	6,599,790	-	-	6,599,790
Research	3,897,131	-	-	3,897,131
Total operating expenses	66,574,257	-	-	66,574,257
Change in net assets from operating activities	2,254,292	(276,333)	-	1,977,959
NONOPERATING ACTIVITIES:				
Long-term investment activities -				
Interest and dividends (net of investment fees)	704,201	-	-	704,201
Net realized and unrealized gains	1,460,427	12,132,286	-	13,592,713
Total long-term investment activities	2,164,628	12,132,286	-	14,296,914
Long-term investment income and gains allocated for operations	(1,028,723)	(4,250,655)	-	(5,279,378)
Capital gifts and grants	4,104,057	571,959	361,687	5,037,703
Other nonoperating activities, net	71,988	-	(78)	71,910
Postretirement benefit related changes other than net periodic benefit cost	2,318,911	-	-	2,318,911
Change in valuation of annuities	-	(500)	(118,577)	(119,077)
Net assets released from restrictions for nonoperating purposes	1,723,218	(1,723,218)	-	-
Change in net assets from nonoperating activities	9,354,079	6,729,872	243,032	16,326,983
CHANGE IN NET ASSETS	11,608,371	6,453,539	243,032	18,304,942
RECLASSIFICATION BASED ON CHANGE IN LAW (Note 7)	(13,165,592)	13,165,592	-	-
NET ASSETS - beginning of year	100,115,264	11,550,654	55,285,737	166,951,655
NET ASSETS - end of year	$ 98,558,043	$ 31,169,785	$ 55,528,769	$ 185,256,597

The accompanying notes are an integral part of these statements.

ALFRED UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,690,992	$ 18,304,942
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Gain on postretirement benefit plan termination	(325,287)	-
Change in contribution discount	(14,447)	(121,011)
Depreciation expense	5,820,249	5,657,511
Loss on disposal of grounds, buildings and equipment	12,052	5,806
Postretirement benefit related changes other than net periodic benefit cost	4,078,470	(2,318,911)
Net realized and unrealized gains on investments	1,386,133	(13,592,713)
Contributions and grants received for capital	(13,295,123)	(5,037,703)
Changes in:		
Student accounts receivable, net	168,084	(297,370)
Inventories and other assets	(10,027)	124,531
Contributions receivable	216,693	-
Notes and other accounts receivable, net	(1,521,034)	(3,134,981)
Accounts payable and accrued expenses	202,821	(1,423,458)
Deferred revenues and deposits	(411,393)	44,891
Asset retirement obligation	110,432	230,200
Postretirement benefit obligation	589,585	860,261
Net cash flow from operating activities	(301,800)	(698,005)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of grounds, buildings and equipment	(14,549,501)	(9,376,086)
Purchases of investments	(22,754,304)	(94,338,647)
Proceeds from the sale of investments	25,097,461	98,229,677
Net cash flow from investing activities	(12,206,344)	(5,485,056)
CASH FLOW FROM FINANCING ACTIVITIES:		
Change in annuities payable	(133,745)	(54,045)
Principal repayments of long-term debt	(8,129,040)	(2,289,282)
Proceeds from issuance of long-term debt	5,624,822	-
Change in U.S. government refundable grants	(32,873)	(6,102)
Contributions and grants received for capital	13,341,445	6,942,230
Net cash flow from financing activities	10,670,609	4,592,801
CHANGE IN CASH AND CASH EQUIVALENTS	(1,837,535)	(1,590,260)
CASH AND CASH EQUIVALENTS - beginning of year	3,284,298	4,874,558
CASH AND CASH EQUIVALENTS - end of year	$ 1,446,763	$ 3,284,298
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest on long-term debt	$ 869,404	$ 1,001,112

The accompanying notes are an integral part of these statements.

1. THE UNIVERSITY

Alfred University (the University) is a not-for-profit, coeducational institution of higher education located in Alfred, New York. The University is comprised of the privately endowed colleges of Liberal Arts and Sciences, Engineering and Business, as well as two statutory units - the School of Art and Design and selected programs within the School of Engineering - that the University administers under a contract with the State University of New York (the State). The New York State College of Ceramics (College of Ceramics) is partially funded directly by the State. The New York State direct funding is included in the University's financial statements.

The University obtains reimbursement for expenses associated with support and management of the College of Ceramics under an "Allocation Agreement" with the College of Ceramics. The State owns the majority of buildings which house the College of Ceramics. However, because the University exercises control of those buildings through an agreement with the State, those buildings are included in the University's net investment in grounds, buildings and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The financial statements of the University have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting
The University classifies its activities into the following net asset categories:

- **Unrestricted**
  Net assets that are not subject to donor-imposed stipulations and are generally available for support of the University's activities, with certain limitations, as follows:

  - Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required balances with trustees under long-term debt agreements and matching funds under student loan programs of the Federal Government.

  - The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment for grounds, buildings and equipment purposes, and for other specific operating purposes.

  - Investment income, as well as gains and losses on investments, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. When such restrictions exist, investment income, gains or losses are reported as temporarily or permanently restricted.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Reporting (Continued)

- **Temporarily Restricted**
  Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) that do not occur within the same period as revenue recognition are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

  Temporarily restricted net assets also include unrestricted investment earnings on permanently restricted endowment funds not yet appropriated for expenditure by the Board of Trustees. When a donor restriction expires or appropriation is made by the Board, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restriction.

- **Permanently Restricted**
  Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the University is permitted to use or expend part or all of the income and gains derived from the donated assets, restricted only by the donors' wishes.

Operations
The statements of activities and change in net assets present the changes in net assets of the University from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to educational programs and research activities provided by the University. Utilization of investment income and gains on long-term investments held for endowment and similar purposes under the University's total return spending policy is considered operating revenue.

Non-operating activities consist primarily of investment income and appreciation from long-term investments in excess of amounts utilized for operations, as well as gifts received that are restricted by donors or designated by the University for long-term purposes, and postretirement benefit related changes other than net periodic benefit costs.

Cash and Cash Equivalents
Cash and cash equivalents consist of amounts on deposit with financial institutions, short-term investments with maturities of three months or less, and other highly liquid investments, primarily cash management funds, which at times, may exceed federally insured limits. The University has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Inventories
Inventories are stated at the lower of cost or market and consist primarily of maintenance and custodial supplies. Cost is determined using the first-in, first-out method.

Notes and Other Accounts Receivable
Notes and other accounts receivable consist primarily of Perkins and other loan receivables due from students and are stated at the unpaid principal balance. Interest on notes and loans receivable is recognized over the term of the loans. The University evaluates individual student loans receivable for impairment on an as-needed basis, and any amounts deemed uncollectible based upon an assessment of the debtor’s financial situation are immediately written-off to the allowance of doubtful accounts. At June 30, 2012 and 2011, there were no impaired loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes and Other Accounts Receivable (Continued)

In order to determine the collectability of notes and other accounts receivable, the University considers the age of the amounts outstanding. The University applies a percentage to the age brackets to arrive at an allowance for doubtful accounts. The percentage that is estimated to be doubtful increases as the number of days outstanding increases. The percentages used are based on prior collection experience and a review of existing receivables. Accounts for which no payments have been received for a period of time, which varies by the nature of the receivable, are considered delinquent and written off or sent to collections, as appropriate.

Fair Value of Financial Instruments

Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of cash and cash equivalents, student and other accounts receivable, accounts payable and accrued expenses approximate fair value due to the short term maturities of these instruments. Contributions receivable are reported at their net present value.

The University's long-term debt approximates fair value at June 30, 2012 and 2011. The fair value of long-term debt was estimated using a discounted cash flow analysis using current borrowing rates for similar types of arrangements.

Investments

The University invests in various types of investment securities, which are primarily stated at fair value. Closely held stock is stated at cost, which approximates fair value. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is possible that changes in their values could occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements.

Endowment

The University's endowment consists of investments that are managed to achieve a maximum long-term total return. The University's Board of Trustees has authorized a policy permitting the use of total returns at a rate (spending rate) of approximately 5% of the average quarterly market value of its investment portfolio for the most recent three calendar years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. In addition, endowment investment appreciation may be utilized, with trustee approval, for other purposes. This policy is designed to preserve the value of the portfolio in real terms (after inflation) and provide a predictable flow of funds to support operations.

Fair Value Measurement - Definition and Hierarchy

The University uses various valuation techniques in determining fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the University. Unobservable inputs are inputs that reflect the University's estimate about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 Inputs - Valuations are based on quoted prices in active markets for identical assets or liabilities that the University has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation does not entail a significant degree of judgment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy (Continued)

- Level 2 Inputs - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 Inputs - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Grounds, Buildings and Equipment

Grounds, buildings and equipment is stated at cost, if purchased, or the fair market value at the date of donation. Grounds, buildings and equipment related to the College of Ceramics, paid for and owned by the State, is recognized in the accompanying financial statements. Debt and debt service related to borrowings of the State for the construction and renovation of plant for the College of Ceramics are not included in the financial statements, as they are not obligations of the University.

Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives in years are as follows:

	University	College of Ceramics
Buildings and improvements	10 to 40	40
Equipment	5	5

The University's capitalization policy requires that all donated or purchased equipment with a useful life greater than one year and a cost or fair market value exceeding $5,000 be recorded as a capital asset. Buildings and improvements with a cost or fair market value exceeding $25,000 are recorded as capital assets.

Impairment losses are recognized when the carrying value of an asset exceeds its fair value. The University regularly assesses all of its long-lived assets for impairment and has determined that no impairment losses need to be recognized in the periods reported.

Revenue Recognition

Tuition revenue for the fall, spring and summer sessions is generally recognized in the fiscal year to which it is applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue and Deposits

Deferred revenue and deposits consists primarily of tuition and fees for the summer semester and room deposits.

Included in deferred revenue and deposits in the accompanying financial statements is an advance payment from a vendor. On July 1, 2005, the University entered into a contract with a dining service vendor to provide services to the University. In lieu of rent, the contract provided for the vendor to make improvements to University dining facilities totaling $975,379. The contract provides for a pro-rata reimbursement of these improvements to the vendor if the University cancels the contract before its expiration.

Annual amortization of this obligation is $139,339 and is reflected in other revenues on the statement of activities and change in net assets. At June 30, 2012, this obligation had been fully amortized. At June 30, 2011, the remaining deferred revenue was $139,339.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received or pledged. 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 market value at the date of gift.

Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Contributions to be received in the future are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Grants and Contracts

Revenue from grants and contracts, primarily for research programs, is generally recognized as earned, that is, as the related costs are incurred under the grant or contract agreements. Amounts received in advance are reported as deferred revenue.

Grants and contracts awarded to the University are subject to audit by the various sponsoring agencies. Indirect costs recovered on grants and contracts are recorded at rates established by the University with the Federal Government, or predetermined by the nonfederal sponsor. Indirect cost rates for government grants and contracts are subject to audit, and subsequent final settlements are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the accompanying financial statements.

U.S. Government Refundable Grants

Funds provided by the United States Government, primarily under the Federal Perkins Student Loan program, are loaned to qualified students and may be re-loaned after cash collections. These funds are potentially refundable to the government and are recognized as a liability in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Internal Revenue Service has determined and informed the University by a letter dated May 28, 1971, that the University is tax-exempt on related income, under section 501(c)(3) of the Internal Revenue Code. Management does not believe that circumstances after the date of the Internal Revenue Service determination letter will affect the tax exempt status of the University. The University has also been classified as an organization that is not a private foundation.

As of June 30, 2012 and 2011, the University does not have a liability for unrecognized tax positions. The University files tax returns in the U.S. federal jurisdiction and New York State. The University is no longer subject to U.S. federal and state income tax examinations by tax authorities for years through 2008.

Expense Allocation

Expenses are reported by functional classification, which includes instruction and public service, institutional support, student services, auxiliary enterprises, academic support and research. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the 2011 financial statements to conform with the current year presentation.

3. NET ASSETS

Unrestricted net assets consisted of the following at June 30:

	2012	2011
Available for operating needs	$ (25,504,956)	$ (20,024,336)
Student loan programs	7,387,242	7,258,253
Funds functioning as endowment as designated by the Board of Trustees	12,591,841	13,305,867
Investment in plant, net of long-term debt	109,239,677	98,018,259
	$103,713,804	$ 95,558,043

3. NET ASSETS (Continued)

Temporarily restricted net assets consisted of the following at June 30:

	2012	2011
Amounts restricted by donors for scholarships	$ 356,010	$ 362,654
Amounts restricted by donors for capital projects	441,436	139,694
Amounts restricted by donors for operations	7,878,584	8,192,637
Contributions receivable for scholarships	15,669	30,452
Contributions receivable for capital projects	352,090	396,112
Contributions receivable for operations	781,275	876,696
Accumulated unappropriated earnings on permanently restricted endowment funds	17,285,998	21,171,540
	$ 27,111,062	$ 31,169,785

Permanently restricted net assets are restricted for endowments, the income of which is expendable. Permanently restricted net assets consisted of the following at June 30:

	2012	2011
Permanent endowment and similar funds for scholarships	$ 19,230,652	$ 18,475,428
Permanent endowment and similar funds for operations	37,711,269	36,778,121
Contributions receivable to endow scholarships	-	94,418
Contributions receivable to endow operations	180,802	180,802
	$ 57,122,723	$ 55,528,769

4. RECEIVABLES

Notes and Other Accounts Receivable
Notes and other accounts receivable consisted of the following at June 30:

	2012	2011
Perkins and other loans receivable	$ 11,415,774	$ 10,607,653
Grants and other receivables	7,689,213	6,273,054
	19,104,987	16,880,707
Less: Allowance for doubtful accounts	(1,144,457)	(441,211)
	$ 17,960,530	$ 16,439,496

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal Government of approximately $2,945,000 and $2,977,000 at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the accompanying balance sheets. Outstanding loans canceled under the program result in a reduction of the funds available for loans and a decrease in the potential liability to the government.

4. RECEIVABLES (Continued)

Notes and Other Accounts Receivable (Continued)

Perkins student loans and institutional loans receivable allowances for doubtful accounts changed as follows for the years ended June 30:

	Perkins Student Loans	Institutional Loans
Allowance for doubtful accounts - July 1, 2010	$ (57,442)	$ (270,558)
Increases	(2,546)	(32,454)
Allowance for doubtful accounts - June 30, 2011	(59,988)	(303,012)
Increases	(237,012)	(483,988)
Allowance for doubtful accounts - June 30, 2012	$ (297,000)	$ (787,000)

At June 30, 2012, the following amounts were outstanding for Perkins student loans and institutional loans receivable:

	Current	1 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total
Perkins student loans	$ 4,207,435	$ 211,760	$ 78,355	$ 719,777	$ 5,217,327
Less: Allowance	-	-	-	(297,000)	(297,000)
	$ 4,207,435	$ 211,760	$ 78,355	$ 422,777	$ 4,920,327
Institutional loans	$ 4,801,185	$ 163,253	$ 48,082	$ 1,185,927	$ 6,198,447
Less: Allowance	-	-	-	(787,000)	(787,000)
	$ 4,801,185	$ 163,253	$ 48,082	$ 398,927	$ 5,411,447

At June 30, 2011, the following amounts were outstanding for Perkins student loans and institutional loans receivable:

	Current	1 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total
Perkins student loans	$ 4,348,678	$ 190,846	$ 38,947	$ 670,340	$ 5,248,811
Less: Allowance	-	-	-	(59,988)	(59,988)
	$ 4,348,678	$ 190,846	$ 38,947	$ 610,352	$ 5,188,823
Institutional loans	$ 4,152,848	$ 134,641	$ 43,107	$ 1,028,246	$ 5,358,842
Less: Allowance	-	-	-	(303,012)	(303,012)
	$ 4,152,848	$ 134,641	$ 43,107	$ 725,234	$ 5,055,830

5. INVESTMENTS

Composition

Investments consisted of the following at June 30:

	2012	2011
Cash and cash equivalents	$ 3,281,812	$ 2,163,116
Corporate bond funds	1,640,857	2,244,627
U.S. government obligations	6,563,501	9,728,629
Common stocks	10,171,522	10,552,520
Closely held stock	1,238,000	1,238,000
Domestic mutual funds	656,128	2,263,978
International mutual funds	4,190,530	3,871,921
Private equity and hedge funds	51,407,979	51,991,990
Limited partnerships	13,228,688	12,076,271
Real estate	28,981	6,236
	$ 92,407,998	$ 96,137,288

Investment Gain (Loss), Net

The University's investment gain (loss), net, including amounts derived from cash and cash equivalents, consisted of the following for the years ended June 30:

	2012	2011
Interest and dividends	$ 1,420,441	$ 992,094
Realized gain (loss)	(392,836)	11,600,139
Unrealized gain (loss)	(993,297)	1,992,574
Investment management fees	(314,165)	(287,893)
	$ (279,857)	$ 14,296,914

The University's investment gain, net, for all level 2 and 3 investments, was $267,592 for the year ended June 30, 2012.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The University's investments and interest rate swap are measured at fair value on a recurring basis using the following input levels at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,281,812	$ -	$ -	$ 3,281,812
Corporate bond funds	-	1,640,857	-	1,640,857
U.S. government obligations	6,563,501	-	-	6,563,501
Common stocks	10,171,522	-	-	10,171,522
Domestic mutual funds	656,128	-	-	656,128
International mutual funds	4,190,530	-	-	4,190,530
Private equity and hedge funds	-	49,075,473	2,332,506	51,407,979
Limited partnerships	-	4,216,976	9,011,712	13,228,688
Real estate	-	28,981	-	28,981
Interest rate swap	-	-	(30,909)	(30,909)
	$ 24,863,493	$ 54,962,287	$ 11,313,309	$ 91,139,089

The University's investments are measured at fair value on a recurring basis using the following input levels at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,163,116	$ -	$ -	$ 2,163,116
Corporate bond funds	-	2,244,627	-	2,244,627
U.S. government obligations	9,728,629	-	-	9,728,629
Common stocks	10,552,520	-	-	10,552,520
Domestic mutual funds	2,263,978	-	-	2,263,978
International mutual funds	3,871,921	-	-	3,871,921
Private equity and hedge funds	-	10,183,946	41,808,044	51,991,990
Limited partnerships	-	1,998,753	10,077,518	12,076,271
Real estate	-	6,236	-	6,236
	$ 28,580,164	$ 14,433,562	$ 51,885,562	$ 94,899,288

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a reconciliation of the beginning and ending balances for the University's investments and interest rate swap, which are measured at fair value using significant unobservable inputs (Level 3):

	Alternative Investments	Interest Rate Swap
Balance at July 1, 2010	$ 37,203,974	$ (91,627)
Purchases	40,835,466	-
Redemptions	(1,116,338)	-
Reclassification	(26,348,375)	-
Total gains	1,310,835	91,627
Balance at June 30, 2011	51,885,562	-
Purchases	2,124,024	-
Redemptions	(1,464,492)	-
Reclassification	(40,309,247)	-
Total losses	(891,629)	(30,909)
Balance at June 30, 2012	$ 11,344,218	$ (30,909)

Fair value of the University's cash and cash equivalents, U.S. government obligations, common stocks and mutual funds are valued at the last reported sale price on the last business day of the fiscal year. Quoted market prices are obtained from the national securities exchanges or, in cases where securities are not listed on any of the exchanges, from brokerage firms. Fair value of the University's corporate bonds is determined by entering standard inputs into a pricing model. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and industry and economic events.

The fair value of the interest rate swap is based on estimates obtained from intermediary banks. The intermediary bank values the swap based on the expected cash flows from each transaction between the University and the intermediary bank which are subject to the interest rate swap agreement using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

The University utilized the net asset value (NAV) reported by each of the private equity and hedge funds, limited partnerships and real estate alternative funds (collectively, alternative investments) as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. In 2012 and 2011, alternative investments that could be redeemed at NAV as of the balance sheet date are classified as Level 2, while those that could not be redeemed at NAV as of the balance sheet date are classified as Level 3.

Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds.

Reclassifications out of Level 3 alternative investments represent investment funds that were previously subject to a lock-up period. The lock-up period has now expired, allowing the alternative investments to be classified as Level 2, as they are subject to redemption at NAV.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The University's alternative investment strategies are described as follows:

TIFF Keystone Fund, L.P.
The University had an investment in this fund of $24,667,185 and $24,839,586 at June 30, 2012 and 2011, respectively. The fund is a pooled investment vehicle with exposure to a globally diverse mix of public and private assets. Its long-term asset allocation framework is augmented by active tactical tilts to manage risk and exploit market opportunities. Exposure to active managers is complemented by internally managed, low-cost passive exposures. The fund is subject to quarterly redemption with a 180 day redemption notice period.

RCP Fund, L.P.
The University had an investment in this fund of $3,822,250 and $3,673,860 at June 30, 2012 and 2011, respectively. The fund's investment strategy is to employ a targeted approach to private equity investing, currently focusing exclusively on the United States buyout segment of the market. The amount of capital committed by the University but not yet paid as of June 30, 2012, was $9,000, $97,000 and $254,000 in RCP III, L.P., RCP IV, L.P. and RCP V, L.P., respectively. The fund is not available for voluntary redemption but rather, redemption may occur upon dissolution of the fund.

Berens Global Value Fund, Ltd.
The University had an investment in this fund of $3,558,850 and $4,037,384 at June 30, 2012 and 2011, respectively. The fund is a global value fund of funds that targets managers who employ strategies that it believes have a reasonable chance of returning over 20% per annum. The fund is long biased and the majority of funds are positioned to capitalize on the growth in developing markets as well as small, less liquid markets not typically covered by index-based funds. The fund is subject to annual redemption with a 90 day redemption notice period.

HHR Titan, Ltd.
The University had an investment in this fund of $2,687,859 and $2,580,361 at June 30, 2012 and 2011, respectively. The fund's objective is to own a group of domestic growth stocks that their research process shows to have the most appreciation potential. The portfolio is at least 80% invested in 20 to 25 stocks, and employs no leverage or hedging. The fund is subject to quarterly redemption with a 30 day redemption notice period.

Centerbridge Credit Partners Offshore, Ltd.
The University had an investment in this fund of $2,266,552 and $2,313,220 at June 30, 2012 and 2011, respectively. The fund's investment strategy focuses on market opportunities throughout the credit cycle. Investments include distressed and stressed debt, senior secured bank loans, high yield debt, real estate debt, specialty financing, structured products and credit related equities. The fund's objective is to capitalize on undervalued credit-orientated investment opportunities. The portfolio is constructed with approximately 40 positions. The fund is non-diversified across regions, industries, market cap, cash, or financial instrument having no size limit in the portfolio. The fund is subject to redemption every two years with a 90 day redemption notice period.

Arrowpoint Fundamental Opportunities
The University had an investment in this fund of $1,997,727 and $1,991,023 at June 30, 2012 and 2011, respectively. The fund is a multi-strategy/event driven hedge fund that seeks to deliver absolute returns in a low volatility, non-correlated portfolio of diverse securities. The fund seeks to minimize risk and leverage in-depth fundamental research to uncover asymmetric risk/reward opportunities across the capital structure. The investment team has expertise in both credit and equity. The fund is subject to quarterly redemption with a 45 day redemption notice period.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Corsair Capital Partners, L.P.
The University had an investment in this fund of $1,985,301 and $2,095,778 at June 30, 2012 and 2011, respectively. The fund's investment strategy focuses on spin-offs, post-reorganization equities and catalyst driven opportunities. The fund invests in small to mid-cap sized companies. The fund uses no leverage and maximum industry exposure of 10-12% with no long position being greater than 5% of cost. The fund is subject to quarterly redemption with a 60 day redemption notice period.

Leaf Investment Partners, L.P.
The University had an investment in this fund of $1,950,424 and $1,998,753 at June 30, 2012 and 2011, respectively. The fund's investment strategy is to capitalize on the "micro-cap" technology sector. The fund invests in publically traded technology companies with enterprise value below $500 million and invests in approximately 60 issues. The fund is subject to quarterly redemption with a 90 day redemption notice period.

Landmark Equity Partners
The University had an investment in this fund of $1,883,540 and $1,879,194 at June 30, 2012 and 2011, respectively. The fund invests in larger venture capital, buyout assets on a secondary basis and may make investments, up to 10% of capital, in primary private equity funds. The amount of capital committed by the University but not yet paid as of June 30, 2012, was $115,752, $158,705 and $493,547 in Landmark Equity Partners XI, Landmark Equity Partners XIII, and Landmark Equity Partners XIV, respectively. The fund is not available for voluntary redemption but rather, redemption may occur upon dissolution of the fund.

MAK Capital International, Ltd. and MAK-ro Capital International, Ltd.
The University had a total investment in these funds of $1,832,426 and $1,953,513 at June 30, 2012 and 2011, respectively. The funds are multi-strategy funds focused on generating positive returns regardless of market direction and will invest in equities, debt, and commodities. The funds will focus on special situations, deep value and relative value equity investing and distressed debt opportunities. The manager exploits market inefficiencies created by other short-term traders. The funds are subject to an initial two year soft lock-up period ending in fiscal 2013, with a 5% early redemption penalty in year one and a 3% early redemption penalty in year two, after which, the fund is subject to quarterly redemptions with a 75 day redemption notice period.

Precision Capital Special Opportunities Fund IV
The University had an investment in this fund of $1,752,000 and $1,469,752 at June 30, 2012 and 2011, respectively. The fund is a private equity fund which provides access to Bain Capital buyout, venture and hedge funds that are often closed or open to only current investors. Bain Capital has very large minimums for each of their funds and the fund's strategy is to provide access to these funds at a reduced subscription minimum while providing diversification across a broad spectrum of funds in various stages and geographic locations. The amount of capital committed by the University but not yet paid as of June 30, 2012, was $870,000. The fund is not available for voluntary redemption but rather, redemption may occur upon dissolution of the fund.

Pennant Windward Fund, Ltd.
The University had an investment in this fund of $1,611,030 and $1,510,590 at June 30, 2012 and 2011, respectively. The all-cap equity fund's investment objective is to achieve 3-5% net returns per quarter with low volatility. The fund seeks a value approach in high volatility markets to enhance returns and avoids micro and small cap companies with limited liquidity. The manager combines conservative fundamental income statement analysis and valuation techniques with a more aggressive balance sheet oriented approach. The fund is subject to quarterly redemption with a 60 day redemption notice period.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Alden Global Distressed Opportunities Fund
The University had an investment in this fund of $1,338,684 and $1,827,172 at June 30, 2012 and 2011, respectively. The fund's strategy is to focus on trading distressed securities and investing in any market capitalization and sector in North America and Europe. The fund projects a 3 to 5 year investment cycle, as it expects bankruptcies to be highest at 6 months to the end of the recession, creating a high number of opportunities. The total portfolio holds 100+ securities. The fund is subject to annual redemption with a 90 day redemption notice period.

MQ Global Macro Fund, Ltd.
The University had an investment in this fund of $1,323,314 at June 30, 2012. The University did not have an investment in this fund in 2011. The fund is a discretionary global macro investment approach developed by Blenheim Capital Management, LLC through intensive research and its proprietary knowledge of fundamental and geopolitical factors. The fund trades futures, options, forward contracts, physicals and securities in market such as soft commodities, energy, industrials, precious metals, grains, fixed income, currencies, and stock indices. The fund is subject to monthly redemption with a 95 day redemption notice period.

CCI Healthcare Partners, L.P.
The University had an investment in this fund of $1,304,307 and $2,391,569 at June 30, 2012 and 2011, respectively. The fund focuses solely on the healthcare sector and seeks to take long positions in both good companies getting stronger and companies that have exceeded investors' expectations. On the short side, the fund looks to invest in good companies getting weaker, weak companies that are deteriorating further and also companies that are failing to meet expectations. The long term goal of the fund is to provide consistent returns and to protect on the downside. The fund is subject to quarterly redemption with a 45 day redemption notice period.

Brigade Leveraged Cap Offshore, Ltd.
The University had an investment in this fund of $1,284,462 and $1,254,485 at June 30, 2012 and 2011, respectively. The fund is a long/short hedge fund investing in debt, high yield and equity securities of leveraged companies. The fund seeks long-term growth of capital through all market environments and has a strong focus on the preservation of capital with an objective to generate 15% annual returns. The fund is subject to an initial two year soft lock-up period ending in fiscal 2013, with a 5% early redemption penalty in year one and a 3% early redemption penalty in year two, after which, the fund is subject to quarterly redemptions with a 60 day redemption notice period.

Conatus Capital Overseas, Ltd.
The University had an investment in this fund of $1,265,588 and $1,273,712 at June 30, 2012 and 2011, respectively. The fund invests long and short in publicly traded global equities across all sectors. Stock selection is based on bottom-up, in-depth fundamental analysis with a macroeconomic focus on the industries in which the companies operate. The fund is subject to quarterly redemption with a 65 day redemption notice period.

Indus Asia/Pacific Rd, Ltd.
The University had an investment in this fund of $1,164,629 and $1,227,592 at June 30, 2012 and 2011, respectively. The fund strives to maintain a robust portfolio of equity positions that deliver high absolute returns commensurate with reasonable risk, with a view toward preserving capital. The fund concentrates its portfolio on the developed markets of Asia and the Eastern Pacific Basin outside of Japan, namely Australia, Hong Kong, Singapore, South Korea, and Taiwan. The fund also invests in the less developed economies of the Asia Pacific. The fund is subject to quarterly redemption with a 30 day redemption notice period.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Rose Grove Offshore Fund I, Ltd.
The University had an investment in this fund of $1,018,533 and $1,010,522 at June 30, 2012 and 2011, respectively. The fund trades actively on the perceived mispricings in the preferred stock market. The managers will arbitrage purchases of preferred stock and sell the underlying bonds, using up to 2.5 times leverage. The fund's goals are to maximize return through current income and capital gains while having minimal correlations with interest rates and the equity and credit markets. The fund is subject to quarterly redemption with a 45 day redemption notice period.

SEG Partners Offshore, Ltd.
The University had an investment in this fund of $1,021,859 and $1,006,026 at June 30, 2012 and 2011, respectively. The fund is a global equity fund that launched in 1998. The fund believes that rigorous fundamental research can generate superior investment returns. The fund's team originates and vets its own ideas through a bottom-up process that generally entails several years of study before making an investment and seeks to invest only in businesses with a perceived limited downside. They are unique in that it rarely, if ever uses Wall Street research in their investment process. The fund is subject to quarterly redemption with a 60 day redemption notice period.

Golub Capital Partners International VIII, LP
The University had an investment in this fund of $1,000,000 at June 30, 2012. The University did not have an investment in this fund in 2011. The fund is primarily engaged in middle market direct lending activities, primarily in senior secured and one stop loans. The fund targets a net return of 13%-16% while actively preserving capital and engaging in quarterly cash distributions for investors. The fund seeks to protect against inflation by using floating rates on the vast majority of underlying assets. The fund will actively use leverage on debt investments and will usually be two or three times leveraged. The fund is subject to an initial 10 year lock-up period expected to end in fiscal 2020, after which, quarterly redemptions with a 75 day redemption notice period may be taken.

Hawkeye Capital Management
The University had an investment in this fund of $993,822 and $1,001,794 at June 30, 2012 and 2011, respectively. The fund is a distressed fund with a focus on disciplines and patient "deep value" investing and takes an investor mentality/approach. The fund believes in a bottom-up fundamental research process and has an intense securities selection process. It invests primarily in cash, debt, and equity securities and will not invest in real estate, commodities, futures, or other derivative products. The fund puts an emphasis on capital preservation before anything else. The fund is subject to a one year soft lock-up period ending in fiscal 2013, with a 5% early redemption penalty, after which, the fund is subject to quarterly redemptions with a 90 day redemption notice period.

ValueAct Capital International II
The University had an investment in this fund of $978,507 and $992,257 at June 30, 2012 and 2011, respectively. The fund's manager takes an active approach to investing, acquiring stakes in a limited number of companies that it believes are fundamentally undervalued. It focuses on small to mid-cap range investments and will take significant single ownership stakes in the companies. The fund is subject to annual redemption with a 90 day redemption notice period.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Samlyn Offshore Fund, Ltd.
The University had an investment in this fund of $936,215 and $983,051 at June 30, 2012 and 2011, respectively. The fund has a mid to large cap focus. The manager's investment philosophy is value-oriented and relies on catalyst-driven, bottom-up fundamental research with a focus on earnings and dividends. There are daily portfolio manager meetings and frequent company visits. The fund is subject to a one year soft lock-up period ending in fiscal 2013, with a 7% early redemption penalty, after which, the fund is subject to semi-annual redemptions with a 45 day redemption notice period.

Oxford Bioscience Partners
The University had an investment in this fund of $343,931 and $509,316 at June 30, 2012 and 2011, respectively. The fund invests in early stages of a company's life and is diversified across a range of sectors, geographies and technologies. There is a strong focus on tools and services to improve lead selection and optimization of candidate compounds for pharmaceutical companies. The fund is not available for voluntary redemption but rather, redemption may occur upon dissolution of the fund.

Adams Capital Management, L.P.
The University had an investment in this fund of $151,639 and $151,765 at June 30, 2012 and 2011, respectively. The fund is an early stage venture fund that seeks opportunities in information technologies, medical equipment, and telecommunication based upon an analysis of discontinuities in industry standards, regulations, technology convergence and distribution. The fund is not available for voluntary redemption but rather, redemption may occur upon dissolution of the fund.

Other Alternative Investments
The University had investments in other alternative funds totaling $496,033 and $102,222 at June 30, 2012 and 2011, respectively. These investments are a mixture of venture capital and growth equity funds, funds in the Master Limited Partnership sector and a diversified property portfolio.

7. ENDOWMENT

The University's endowment consisted of the following at June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	$ -	$ 17,285,997	$ 56,067,279	$ 73,353,276
Board designated (Quasi) endowment funds	12,591,841	-	-	12,591,841
	$ 12,591,841	$ 17,285,997	$ 56,067,279	$ 85,945,117

7. ENDOWMENT (Continued)

The University's endowment consisted of the following at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	$ -	$ 21,171,540	$ 55,228,409	$ 76,399,949
Board designated (Quasi) endowment funds	13,305,867	-	-	13,305,867
	$ 13,305,867	$ 21,171,540	$ 55,228,409	$ 89,705,816

Changes in the University's endowment consisted of the following during the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - July 1, 2010	$ 24,928,305	$ -	$ 54,866,800	$ 79,795,105
Reclassification of net assets based on change in law	(13,165,592)	13,165,592	-	-
Investment return:				
Interest and dividends (net of fees)	644,781	-	-	644,781
Net realized and unrealized gain	1,156,998	12,132,286	-	13,289,284
Total investment return	1,801,779	12,132,286	-	13,934,065
Contributions	500	-	361,609	362,109
Transfers	769,598	124,317	-	893,915
Appropriations for expenditure	(1,028,723)	(4,250,655)	-	(5,279,378)
Endowment net asset - June 30, 2011	13,305,867	21,171,540	55,228,409	89,705,816
Investment return:				
Interest and dividends (net of fees)	1,034,404	-	-	1,034,404
Net realized and unrealized loss	(1,228,256)	(132,763)	-	(1,361,019)
Total investment return	(193,852)	(132,763)	-	(326,615)
Contributions	1,100	-	774,058	775,158
Transfers	238,088	(123,943)	64,812	178,957
Appropriations for expenditure	(759,362)	(3,628,837)	-	(4,388,199)
Endowment net assets - June 30, 2012	$ 12,591,841	$ 17,285,997	$ 56,067,279	$ 85,945,117

7. ENDOWMENT (Continued)

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on permanently restricted endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income (interest and dividends) and income is classified as temporarily restricted until appropriated by the Board for expenditure.

New York Not-for-Profit Corporation Law was amended to add a new article known as the "Prudent Management of Institutional Funds Act," which became effective in September 2010. The implementation resulted in a reclassification of previously reported net asset balances from unrestricted net assets to temporarily restricted net assets in the amount of $13,165,592, that is reflected in the statements of activities and change in net assets for the year ended June 30, 2011.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required to be maintained by New York Not-for-Profit Corporation Law. The University had funds with deficiencies totaling approximately $6,600,000 and $5,000,000 as of June 30, 2012 and 2011, respectively.

Return Objectives and Risk Parameters

The University's long-term investment objective is to preserve the portfolio's purchasing power by earning a rate of return, over any five to ten-year period, which equals or exceeds the spending rate determined by the Board of Trustees, plus long-term inflation as measured by the GNP deflator, plus the costs of conducting the investment program, plus 1% annualized.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places an emphasis on maintaining a balanced investment portfolio that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and Related Investment Objectives

The long-term objective of the spending guidelines is to maintain the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current operations. The Board of Trustees has approved an annual spending rate of 5% of the average quarterly market value of its investment portfolio for the most recent three calendar years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. In addition, endowment investment appreciation may be utilized, with trustee approval, for other purposes.

8. GROUNDS, BUILDINGS AND EQUIPMENT

The University's investment in grounds, buildings and equipment at June 30 is as follows:

	2012	2011
Grounds	$ 1,122,832	$ 1,122,832
Buildings and improvements	183,416,972	170,165,509
Equipment, library books and museum pieces	26,689,111	47,389,146
Construction in progress	3,663,304	3,611,154
	214,892,219	222,288,641
Less: Accumulated depreciation	(88,286,978)	(104,400,600)
University grounds, buildings and equipment, net	$ 126,605,241	$ 117,888,041

Included in grounds, buildings and equipment are plant assets specifically relating to the College of Ceramics of $45,349,914 and $36,082,866, net of related accumulated depreciation, at June 30, 2012 and 2011, respectively.

9. ASSET RETIREMENT OBLIGATION

The University has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings are renovated or disposed. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The following table presents the activity for the AROs for the years ended June 30:

	2012	2011
Balance at beginning of year	$ 1,840,540	$ 1,610,340
Accretion expense	110,432	230,200
Balance at end of year	$ 1,950,972	$ 1,840,540

10. LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	Date Issued	Maturity	Interest Rate	Original Issue	Balance 2012	Balance 2011
Principal payable:						
Civic facility leasehold (a)	1998	2028	4.25 to 5.25	$23,035,000	$ 10,615,000	$ 11,765,000
Mortgage notes, bank loan and bonds payable (b):						
U.S. Department of Housing and Urban Development - Openhym Hall	1967	2017	3.00	1,000,000	220,000	250,000
Foster Lake mortgage	2002	2018	4.75	160,163	69,319	80,679
Community Bank - Lambda mortgage	2003	2014	6.50	165,000	28,214	48,140
JP Morgan Chase - administrative systems loan	2006	2016	2.64	3,500,000	1,429,143	1,779,147
Community Bank - boiler loan	2009	2014	2.00	497,000	163,010	263,146
Community Bank - consolidation loan	2011	2017	3.50	5,624,822	4,840,878	-
Amounts repaid in 2012					-	5,683,670
					$ 17,365,564	$ 19,869,782

The University has certain financial and non-financial debt covenants in connection with its long-term debt agreements. At June 30, 2012 and 2011, the University was in compliance with these covenants.

(a) Principal Payable - Civic Facility Leasehold, 1998
Under an agreement with the Allegany County Industrial Development Agency (ACIDA), serial and term bonds were issued for the purpose of refunding the ACIDA Civic Facility Revenue Bonds, Series 1991 and Dormitory Authority of the State of New York Series B Bonds, and for the purposes of financing the installation of fiber optic cable throughout the University's campus and making other improvements to existing buildings. Payment of principal and interest requirements on the bonds is collateralized by the University's revenue.

The original bonds were used to finance construction, acquisition, and furnishing of the Powell Campus Center, Saxon Inn, and the Ford Street Apartments at the University. Title in the projects are vested with ACIDA under an installment sales agreement, which reverts to the University when the bonds are retired in 2028.

(b) Mortgage Notes, Bank Loan and Bonds Payable
Bonds issued by the U.S. Department of Housing and Urban Development Agency and the U.S. Department of Education are general obligations of the University, collateralized by first mortgages on the facilities constructed and by pledges of gross or net revenues of various facilities. The Openhym Hall Bond of 1967 is collateralized by a pledge of a first lien on student tuition in the amount of $30,000 each year.

In September 2002, the University entered into a mortgage agreement for the purchase of property at Foster Lake. The agreement is with the former owner of the property and bears an interest rate of 4.75% per annum.

10. LONG-TERM DEBT (Continued)

(b) Mortgage Notes, Bank Loan and Bonds Payable (Continued)

In October 2003, the University entered into a mortgage agreement for the purchase of property formerly owned by Kappa Sigma Zeta of Lambda Chi. The mortgage bears an interest rate of 6.50% per annum.

In January 2006, the University refinanced its notes payable with JPMorgan Chase that were obtained to finance the implementation of its new enterprise-wide information system, SCT Banner. The loan bears interest at LIBOR (0.24% at June 30, 2012) plus 1.75%. The University entered into an interest rate swap agreement with respect to the loan as described in Note 11.

In January 2006, the University entered into a financing agreement with Community Bank to provide funds for renovation, closeout of architect costs and deferred maintenance projects. The loan carried an original fixed interest rate of 6.5% per annum and was cross-collateralized by a $5 million investment in the Neuberger Berman Bond Fund. As part of the May 2009 loan agreement with Community Bank, the loan's interest rate was reduced to 5.5% in July 2009. This loan was paid in full with a consolidation loan from Community Bank in July 2011.

In January 2009, the University entered into a financing agreement with Community Bank totaling $497,000 to finance the replacement of a boiler at the University. The loan bears interest at 6% and has a New York State Energy Research and Development Authority Subsidized rate of 4% for a net fixed rate to the University of 2%.

In May 2009, the University entered into a financing agreement with Community Bank to provide funds for the construction of a new residence hall and renovation of an existing residence hall. The loan bore interest at a fixed rate of 5.35% per annum and was cross-collateralized by a $5 million investment in the Neuberger Berman Bond Fund. This loan was paid in full with a consolidation loan from Community Bank in July 2011.

In July 2011, the University entered into a financing agreement with Community Bank to refinance and consolidate two of its existing loans, the term loan and the Ann's house and Kruson renovations loan, totaling $5,624,822. The loan bears interest at fixed rate of 3.5% per annum and does not require collateral.

Total interest expense incurred on long-term debt was $826,605 and $974,481 for the years ended June 30, 2012 and 2011, respectively.

The following is a schedule of required principal payments of the aforementioned debt for the years ending June 30:

2013	$ 1,842,408
2014	1,838,672
2015	1,829,294
2016	1,888,760
2017	1,633,583
Thereafter	8,332,847
	$ 17,365,564

11. INTEREST RATE SWAP AGREEMENT

To effectively convert the JPMorgan Chase long-term debt from a variable rate to a fixed rate, the University entered into an interest rate swap agreement with JPMorgan Chase, which was renewed in July 2011. The interest rate swap agreement had a notional amount of $1,429,143 and 1,779,147 at June 30, 2012 and 2011, respectively. The interest rate swap had a fair value of $(30,909) at June 30, 2012. The original interest rate swap agreement matured on July 1, 2011, and therefore, did not have a fair value as of June 30, 2011. The University is billed monthly by the trustee for the variable rate interest charge. If the monthly interest charge at the variable rate is less than the fixed rate, then the University pays JPMorgan Chase the difference between the variable rate calculated interest charge for the month and the fixed rate of 2.64%. If the monthly interest charge at the variable rate is greater than the fixed rate, then JPMorgan Chase pays the University the difference between the fixed rate of 2.64% and the variable rate calculated interest charge for the month. The continued effectiveness of the swap will be contingent upon the ability of the counterparty to meet its contractual obligations under the agreement.

The fair value of the University's interest rate swap is as follows at June 30, 2012 and 2011:

	Location	2012	2011
Interest rate contract	Accounts payable and accrued expenses	$ (30,909)	$ -

The effect of derivative instruments on the statement of activities and change in net assets for the year ended June 30, 2012, was as follows:

	Location of Loss Recognized (Effective Portion)	Amount of Loss Recognized (Effective Portion)
Interest rate contract	Operating expenses	$ (30,909)

The effect of derivative instruments on the statement of activities and change in net assets for the year ended June 30, 2011, was as follows:

	Location of Gain Recognized (Effective Portion)	Amount of Gain Recognized (Effective Portion)
Interest rate contract	Operating expenses	$ 91,627

12. LINES-OF-CREDIT

The University has a $2,000,000 line-of-credit with a bank dated December 31, 2011. Outstanding balances are unsecured with interest payable monthly at LIBOR plus 175 basis points (1.99% at June 30, 2012). The line-of-credit expires on December 31, 2012. The University had no outstanding balance on the line as of June 30, 2012 and 2011.

The University has a $1,000,000 line-of-credit with Steuben Trust Company dated December 31, 2011. Outstanding balances are unsecured with interest payable monthly at prime (3.25% at June 30, 2012). The line-of-credit expires on December 31, 2012. The University had no outstanding balance on the line as of June 30, 2012 and 2011.

13. CONTRIBUTIONS

Contributions scheduled to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. No allowance for uncollectible contributions receivable is provided, based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions receivable are expected to be paid as follows for the years ending June 30:

2013	$ 1,053,570
2014	234,793
2015	89,528
2016	15,915
2017	15,915
	1,409,721
Less: Unamortized discount (2.8% - 6%)	(79,885)
	$ 1,329,836

Total costs incurred for fund-raising activities are recorded as expense when incurred and totaled $2,210,761 and $2,074,049 for the years ended June 30, 2012 and 2011, respectively.

14. BENEFIT PLANS

Pension Plan

The University makes annual contributions to its defined contribution retirement plan which are immediately vested for the benefit of the participants. For employees covered under the New York State pension plan, the University makes contributions to the State Retirement System which are reimbursed by the State.

Total retirement plan expense for the University for the years ended June 30, 2012 and 2011, were $1,249,550 and $1,180,908, respectively. Retirement plan expense for the College of Ceramics was $648,569 and $892,748 for the years ended June 30, 2012 and 2011, respectively.

14. BENEFIT PLANS (Continued)

Postretirement Benefits Plan
The University offers postretirement medical and life insurance benefits to its retirees and their spouses through a medical and life insurance plan and a supplemental medical plan. The expected costs of these benefits are recognized when they are earned. Current and prior year costs are allocated among the expenses of general operations. Participation in the plans was frozen as of July 1, 1998. In 2012, the supplemental medical plan was terminated and a gain of $325,287 was recognized as a result of the termination.

Measurement Date
The University uses a June 30 measurement date for its plans.

Funded Status
The University accounts for its postretirement benefit plans in accordance with ASC Section 715, *Employers Accounting for Postretirement Benefits Other Than Pensions*. ASC Section 715 requires recognition of the funded status of the University's postretirement plan in the balance sheet. A summary of the postretirement benefit plan's funded status and amounts recognized in the University's statements for the years ended June 30 is as follows:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 18,295,302	$ 19,753,952
Service cost	213,153	308,538
Interest cost	969,161	1,068,068
Participant contributions	63,168	55,738
Actuarial loss (gain)	4,078,470	(2,318,911)
Plan termination	(325,287)	-
Benefits paid	(655,897)	(572,083)
Benefit obligation, end of year	22,638,070	18,295,302
Change in plan assets:		
Fair value of assets, beginning of year	-	-
Employer contributions	592,729	516,345
Participant contributions	63,168	55,738
Benefits paid	(655,897)	(572,083)
Fair value of assets, end of year	-	-
Funded status	$ (22,638,070)	$ (18,295,302)

Financial Statement Recognition
As of June 30, the following amounts were recognized in the balance sheet:

	2012	2011
As a liability	$ 22,638,070	$ 18,295,302

14. BENEFIT PLANS (Continued)

Financial Statement Recognition (Continued)

Amounts recognized in the statement of activities and change in net assets as of June 30 consist of:

	2012	2011
Net periodic benefit cost	$ 589,585	$ 860,261
Postretirement benefit related changes other than net periodic benefit cost	$ (4,078,470)	$ 2,318,911
Gain on postretirement plan termination	$ 325,287	$ -

As of June 30, 2012, the following items included in net assets had not yet been recognized as components of benefits expense:

	Prior Service Credit	Net Gain
Unrecognized amounts at June 30, 2012	$ (42,130)	$ 2,105,784

The amortization of the above items expected to be recognized in net periodic costs for the year ended June 30, 2013 is $(8,426).

Assumptions

A summary of the weighted average assumptions used to determine the benefit obligations at June 30 is presented below:

	2012	2011
Discount rate	4.25%	5.50%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	N/A	N/A

For measurement purposes, a 10% annual rate of increase in the under 65 age group and a 7.5% increase in the 65 and over age group in the per capita cost of covered health care benefits was assumed for 2011-2012 for healthcare. The rate was assumed to gradually decrease to 5% by 2016 and remain at that level, thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in health care cost trend rates would have the following effects:

	2012		2011	
	1-Percentage Point Increase	1-Percentage Point Decrease	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 201,438	$ (162,786)	$ 187,035	$ (153,622)
Effect on postretirement benefit obligation	$ 3,274,569	$ (2,688,228)	$ 2,507,953	$ (2,077,414)

14. BENEFIT PLANS (Continued)

Contributions

The University expects to contribute approximately $782,000 to its postretirement benefit plan during the year ended June 30, 2013.

Estimated Future Benefit Payments

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

	Gross Benefit Payments (Before Subsidy)	Expected Participant Contributions (Subsidy)
2013	$ 869,232	$ 86,800
2014	$ 953,000	$ 98,000
2015	$ 1,008,000	$ 108,000
2016	$ 1,136,000	$ 116,000
2017	$ 1,170,000	$ 129,000
2018 - 2022	$ 6,802,000	$ 799,000

15. SUBSEQUENT EVENTS

In August 2012, the University entered into a commitment for a future capital project totaling approximately $6.7 million.

Subsequent events have been evaluated through September 26, 2012, which is the date the financial statements were available to be issued.

Bonadio & Co., LLP
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 26, 2012

To the Board of Trustees of
Alfred University:

We have audited the financial statements of Alfred University (the University) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

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

We noted certain other matters that we reported to management of the University in a separate letter dated September 2012.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP