Millikin University

Financial Report
June 30, 2013

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
Millikin University
Decatur, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Millikin University (University) which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Millikin University as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Springfield, Illinois
October 9, 2013

Millikin University

Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 24,104,256	$ 22,817,989
Accounts receivable, net of allowance; 2013 $511,095; 2012 $395,894	774,171	830,212
Investments (Notes 2 and 3)	117,501,864	108,910,413
Contributions receivable, net of allowance; 2013 $5,000; 2012 $1,667 (Note 4)	4,112,847	6,589,870
Notes receivable, net of allowance of $250,000	2,517,386	2,634,182
Property and equipment, net (Note 6)	96,996,866	94,053,135
Other assets	283,493	395,284
Total assets	$ 246,290,883	$ 236,231,085
Liabilities and Net Assets		
Accounts and other payables	$ 2,841,910	$ 3,070,413
Deferred revenue	1,778,832	2,091,675
Advances from U.S. government, Perkins Loan Program	2,263,355	2,267,511
Conditional asset retirement obligation (Note 18)	2,632,185	2,478,517
Capital lease obligation (Note 7)	11,166,792	11,520,060
Long-term debt (Note 9)	22,647,500	23,595,000
Interest rate swap agreement (Note 10)	808,711	1,331,222
Student deposits and funds held for others	507,190	517,545
Annuities payable (Note 5)	337,613	370,724
Total liabilities	44,984,088	47,242,667
Commitments and contingencies (Note 5, 7, 8, 12, 13, 16, 17, 18)		
Net Assets:		
Unrestricted	79,966,857	75,477,282
Temporarily restricted (Note 12)	65,869,154	62,176,926
Permanently restricted (Note 12)	55,470,784	51,334,210
Total net assets	201,306,795	188,988,418
Total liabilities and net assets	$ 246,290,883	$ 236,231,085

See Notes to Financial Statements.

Millikin University

Statement of Activities
Year Ended June 30, 2013

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:				
Tuition and fees	$ 60,020,464	$ -	$ -	$ 60,020,464
Less scholarships	29,718,746	-	-	29,718,746
Net tuition and fees	30,301,718	-	-	30,301,718
Federal and state grants and contracts	199,424	184,566	-	383,990
Private gifts	1,455,014	7,447,411	3,832,455	12,734,880
Educational activities revenue	279,898	-	-	279,898
Auxiliary enterprise revenue	7,300,407	-	-	7,300,407
Endowment investment income	604,727	4,556,172	1,198	5,162,097
Investment income	111,669	3	-	111,672
Net realized gains on investments	3,214	1,142,530	-	1,145,744
Net change in unrealized gains on investments	455,374	3,981,313	-	4,436,687
Change in beneficial interest in perpetual trusts	-	-	302,921	302,921
Gain on disposal of property	43,756	-	-	43,756
Other	1,345,929	19,495	-	1,365,424
Net assets released from restrictions	13,639,262	(13,639,262)	-	-
Total revenues, gains and other support	55,740,392	3,692,228	4,136,574	63,569,194
Expenses and Losses:				
Instruction	16,778,316	-	-	16,778,316
Academic support	2,140,799	-	-	2,140,799
Student services	7,021,694	-	-	7,021,694
Institutional support	8,475,029	-	-	8,475,029
Operation and maintenance of plant	5,176,732	-	-	5,176,732
Auxiliary enterprises	5,801,789	-	-	5,801,789
Interest on indebtedness	1,271,302	-	-	1,271,302
Depreciation and amortization	4,748,667	-	-	4,748,667
Bad debts	359,000	-	-	359,000
Total expenses and losses	51,773,328	-	-	51,773,328
Other Changes in Net Assets:				
Change in fair value of interest rate swap agreement	522,511	-	-	522,511
Total other changes in net assets	522,511	-	-	522,511
Change in net assets	4,489,575	3,692,228	4,136,574	12,318,377
Net Assets:				
Beginning of year	75,477,282	62,176,926	51,334,210	188,988,418
End of year	$ 79,966,857	$ 65,869,154	$ 55,470,784	$ 201,306,795

See Notes to Financial Statements.

Millikin University

Statements of Activities
Year Ended June 30, 2012

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:				
Tuition and fees	$ 59,762,867	$ -	$ -	$ 59,762,867
Less scholarships	28,907,381	-	-	28,907,381
Net tuition and fees	30,855,486	-	-	30,855,486
Federal and state grants and contracts	203,101	181,021	-	384,122
Private gifts	1,160,883	4,410,668	1,132,322	6,703,873
Educational activities revenue	254,023	-	-	254,023
Auxiliary enterprise revenue	6,866,238	-	-	6,866,238
Endowment investment income	615,051	4,318,443	442	4,933,936
Investment income	128,037	3	-	128,040
Net realized gains on investments	1,814	624,623	-	626,437
Net change in unrealized (losses) on investments	(48,711)	(2,849,772)	-	(2,898,483)
Change in beneficial interest in perpetual trusts	-	-	737,264	737,264
Other	1,368,068	42,660	-	1,410,728
Net assets released from restrictions	6,635,195	(6,635,195)	-	-
Total revenues, gains and other support	48,039,185	92,451	1,870,028	50,001,664
Expenses and Losses:				
Instruction	16,689,366	-	-	16,689,366
Academic support	2,080,608	-	-	2,080,608
Student services	6,652,468	-	-	6,652,468
Institutional support	8,086,570	-	-	8,086,570
Operation and maintenance of plant	4,645,549	-	-	4,645,549
Auxiliary enterprises	5,187,375	-	-	5,187,375
Interest on indebtedness	1,426,461	-	-	1,426,461
Depreciation and amortization	4,349,841	-	-	4,349,841
Loss on disposal of property	87,486	-	-	87,486
Bad debts	349,000	-	-	349,000
Total expenses and losses	49,554,724	-	-	49,554,724
Other Changes in Net Assets:				
Change in fair value of interest rate swap agreement	(930,446)	-	-	(930,446)
Total other changes in net assets	(930,446)	-	-	(930,446)
Change in net assets	(2,445,985)	92,451	1,870,028	(483,506)
Net Assets:				
Beginning of year	77,923,267	62,084,475	49,464,182	189,471,924
End of year	$ 75,477,282	$ 62,176,926	$ 51,334,210	$ 188,988,418

See Notes to Financial Statements.

Millikin University

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 12,318,377	$ (483,506)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,320,055	4,157,249
Bad debts	359,000	349,000
Perkins loan cancellations	12,353	22,937
Net change in unrealized (gains) losses on investments	(4,436,687)	2,898,483
Change in beneficial interest in perpetual trusts	(302,921)	(737,264)
Gifts of stock	(2,289,799)	(1,033,016)
Contributions restricted for long-term investments	(3,832,455)	(1,132,322)
Loss on disposal of property and equipment	590	117,486
(Gain) on sale of artwork	(44,346)	(30,000)
Amortization of bond issuance costs	274,944	47,895
Amortization of deferred revenue	(73,588)	(73,588)
(Gain) loss on interest rate swap agreement	(522,511)	930,446
Change in value of annuities payable and other changes	(13,218)	30,202
Changes in:		
Accounts receivable	(302,959)	(104,944)
Contributions receivable	2,529,266	2,602,078
Accounts and other payables	(277,711)	690,682
Deferred revenue	(239,255)	627,626
Student deposits and assets held for others	(10,355)	65,813
Conditional asset retirement obligation	153,668	144,697
Other assets	(23,710)	12,859
Net cash provided by operating activities	7,598,738	9,102,813
Cash Flows from Investing Activities		
Purchase of investments	(26,739,441)	(17,615,152)
Net realized (gains) on investments	(1,145,744)	(626,437)
Proceeds from disposition of investments	27,817,856	15,244,103
Purchase of property and equipment	(7,233,658)	(1,434,186)
Proceeds from sale of property and equipment	18,491	13,014
Proceeds from sale of artwork	44,345	30,000
Disbursements for student loan notes receivable	(363,396)	(253,241)
Repayments of student loan notes receivable	467,839	355,285
Net cash used in investing activities	(7,133,708)	(4,286,614)

(Continued)

Millikin University

Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term investments	$ 3,780,212	$ 1,100,916
Proceeds from funds in trust	19,767	2,332,532
Additions to funds in trust	(1,475,894)	-
Proceeds from issuance of long-term debt	9,680,000	-
Principal payments on long-term debt	(10,627,500)	(855,000)
Principal payments on capital lease obligation	(353,268)	(339,439)
Reinsured annuities	(20,965)	-
Payments on annuities	(37,516)	(38,699)
Payment for bond issuance costs	(139,443)	-
(Decrease) in advances from U.S. government	(4,156)	(19,578)
Net cash provided by financing activities	821,237	2,180,732
Change in cash and cash equivalents	1,286,267	6,996,931
Cash and cash equivalents:		
Beginning	22,817,989	15,821,058
Ending	$ 24,104,256	$ 22,817,989
Supplemental Disclosure of Cash Flow Information		
Cash payment for interest	$ 908,434	$ 973,509
Supplemental Schedule of Noncash Investing and Financing Activities		
Construction in progress included in accounts payable	$ 49,208	$ 107,829

See Notes to Financial Statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Millikin University (University), located in Decatur, Illinois, is a private, co-educational university founded in 1901 to provide students with both a strong liberal arts foundation and preparation necessary for success in their chosen fields.

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

Basis of accounting: The financial statements of the University have been prepared on the accrual basis of accounting. The University has presented its assets and liabilities on its statement of financial position in an unclassified manner, but in order of liquidity.

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

General: Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Permanently restricted net assets: Net assets subject to donor-imposed stipulations to maintain them permanently.
- Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- Unrestricted net assets: Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets: With respect to temporarily restricted net assets, the University has adopted the following policies:

- Contributions with restrictions met in the same year: Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporary net asset class. As restricted funds are spent, the expenses are reflected as a release from restriction.
- Release of restrictions on net assets for acquisition of property and equipment: Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets class. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues of the temporarily restricted net assets class; the restrictions are considered to be released at the time of acquisition of such long-lived asset.

Cash equivalents: For purposes of reporting cash flows, the University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts. Money market funds held by investment custodians are included in investments.

Investments and investment return: Investments in equity securities, real estate, debt securities and interests in oil and gas properties are carried at fair value. When quoted market prices are not available, other methods are utilized to estimate fair value as described in Note 17. Investments in real estate are carried at fair value in consultation with the University's real estate management firm based on fair values of similar properties. Investment return includes dividends, interest and other investment income; and realized and unrealized gains and losses on investments carried at fair value.

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

Investments in private equity funds and hedge funds are generally valued at fair value based on the applicable percentage ownership of the underlying partnerships' net assets as of the measurement date, as determined by management. In determining fair value, management utilizes valuations provided by the underlying investment partnerships. The underlying investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the partnership's management or sponsor of the respective other investment partnership and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the University's investments in private equity funds and hedge funds generally represents the amount the University would expect to receive if it were to liquidate its investment in the funds excluding any redemption charges that may apply.

Investment return is classified as temporarily restricted until appropriated for expenditure by the University if the endowment funds are in a gain position. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, funds used to restore the fair value of the assets of the endowment fund to the required level shall be classified as decreases in unrestricted net assets.

The University maintains pooled investment accounts for its endowments. Investment income is allocated annually to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

The University records its proportionate share of trusts held by others using the trust's fair market value. Income is recognized as it is distributed to the University by the trusts. The total of all trusts held by others is recorded, as appropriate, in permanently or temporarily restricted net assets.

<u>Fair value measurements</u>: The University is required to carry certain assets and liabilities at fair value in the statements of financial position. The University is also required to disclose the fair value of certain financial instruments. The University's fair value measurement approach for certain assets and liabilities is discussed in Note 17.

<u>Student accounts and notes receivable</u>: Student accounts receivable are carried at the amount billed to the students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Amounts that are past due without payments for three consecutive months, have had no response to the due diligence process and are assigned to third-party collection agencies are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

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

Notes receivable consist of amounts due under the Federal Perkins Loan Program and institutional loan programs and are carried at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need for both Perkins and institutional loans and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Interest income is recorded as received, which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are past due for at least one payment are considered delinquent. Loans that are delinquent continue to accrue interest. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

For Federal Perkins loans, since these are homogenous loans with small balances they are collectively evaluated for impairment. The University applies a quantitative factor based on historical default experience. For University loans, these are also homogenous loans with small balances. The University identifies loans without payments for three consecutive months and evaluates for collectability and then applies a quantitative factor based on historical default experience to the remaining University loan balance.

During the year ended June 30, 2013, the University has not significantly changed its methodology for the allowance for doubtful notes on notes receivable.

Property and equipment: Land, land improvements, buildings and equipment are stated at cost at the date of acquisition or fair value at the date of gift, less accumulated depreciation. Depreciation on land improvements, buildings and equipment is computed using the straight-line method over the following estimated useful lives of the respective asset classes:

	Years
Land improvements	15 - 40
Buildings	15 - 40
Equipment	1 - 5

Equipment under capital lease is stated at the present value of future minimum lease payments and amortized to estimated residual values using the straight-line method over the length of the term of the lease. The depreciation expense on assets acquired under capital leases is included in depreciation expense on owned assets.

Revenue recognition: Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in the net asset category corresponding to the underlying financial instrument. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported in the statement of activities as net assets released from restrictions. Tuition and auxiliary enterprise revenues are reported as increases in unrestricted net assets when earned.

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

Contributions: Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as temporarily restricted revenue, net assets released from restrictions and unrestricted net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Split-interest agreements: The University utilizes the actuarial method to record the liability for its split-interest agreements. Assets are recorded at fair value at date of receipt, and a liability is recorded based on the present value of the annuity utilizing life expectancy tables as set forth in the Internal Revenue Code. On a quarterly basis, an adjustment is made to the liability to record an actuarial gain or loss based on a recomputation of the annuitant's revised life expectancy.

Collections: All collections of works of art, historical treasures and similar assets, acquired or received after July 1, 1995, are capitalized. Items added to the collections are capitalized at cost, if purchased, or at estimated fair value on the acquisition date, if donated. Collection items sold or removed are reported as unrestricted or temporarily restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition. Part of an art collection has been deaccessioned and gains of $44,346 and $30,000 are included in the statements of activities for the years ended June 30, 2013 and 2012, respectively.

Government grants: Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

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.

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

Income taxes: The University has a tax determination letter from the Internal Revenue Service stating they qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes. As such, the University is subject to federal income taxes only on any net unrelated business income under the provisions of Section 511 of the Code.

The University files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to Universities include such matters as the following: the tax exempt status of each entity and various positions relative to potential sources of unrelated business taxable income (UBIT). UBIT is reported on Form 990-T, as appropriate. The benefit of tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no uncertain tax benefits identified and recorded as a liability as of June 30, 2013 and 2012.

Forms 990 and 990-T filed by the University are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990-T filed by the University are no longer subject to examination for the fiscal years ended prior to June 30, 2010.

Recent accounting pronouncements: In May 2011, the FASB issued an amendment to accounting guidance, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended ASC 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and became effective for the University for the year ended June 30, 2013. The University adopted the provisions of ASU 2011-04 on July 1, 2012, with no significant effect on fair value disclosures.

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The amendments in this update require the entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the entity. The guidance related to the pronouncement was effective and adopted for the period beginning July 1, 2012 and is reflected in the financial statements.

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

Subsequent events: All of the effects of subsequent events that provide additional evidence about conditions that existed at the statement of financial position date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The University does not recognize subsequent events that provide evidence about conditions that did not exist at the statement of financial position date but arose after, but before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading.

Subsequent events have been evaluated through, October 9, 2013, which is the date that the financial statements were issued.

Note 2. Investments

Investments consist of the following as of June 30, 2013 and 2012:

	2013	2012
Money market funds	$ 543,073	$ 1,606,599
Common stock and fund equities	53,832,069	41,060,584
Bonds	79,270	3,878,375
U.S. Government securities	-	5,592,911
Hedge funds	14,617,432	13,684,677
Private equity funds	10,741,201	10,281,610
Real estate, including farms	26,850,158	23,756,719
Interest in oil and gas properties	474,169	595,309
Funds held in trust by others	10,364,492	8,453,629
	$ 117,501,864	$ 108,910,413
Investments by net asset category:		
Unrestricted	$ 11,387,040	$ 10,856,766
Temporarily restricted	50,767,159	47,000,682
Permanently restricted	55,347,665	51,052,965
	$ 117,501,864	$ 108,910,413

Note 2. Investments (Continued)

Investment income for the year ended June 30, 2013, consists of the following:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest, dividends and other	$ 716,396	$ 4,556,175	$ 1,198	$ 5,273,769
Realized gain on sale of investments	3,214	1,142,530	-	1,145,744
Change in unrealized gain on investments	455,374	3,981,313	-	4,436,687
Change in beneficial interest in perpetual trusts	-	-	302,921	302,921
	$ 1,174,984	$ 9,680,018	$ 304,119	$ 11,159,121

Investment income for the year ended June 30, 2012, consists of the following:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest, dividends and other	$ 743,088	$ 4,318,446	$ 442	$ 5,061,976
Realized gain on sale of investments	1,814	624,623	-	626,437
Change in unrealized gain (loss) on investments	(48,711)	(2,849,772)	-	(2,898,483)
Change in beneficial interest in perpetual trusts	-	-	737,264	737,264
	$ 696,191	$ 2,093,297	$ 737,706	$ 3,527,194

The University is the income and/or principal beneficiary of various funds held by independent trustees. The University recognizes the funds based on fair value of the trust assets less the present value of future payments to other designated beneficiaries. As of June 30, 2013 and 2012, these funds totaled $10,364,492 and $8,453,629, respectively. For the years ended June 30, 2013 and 2012, the University received distributions of assets for the maturity of certain trusts totaling $19,767 and $2,332,532, respectively.

The University had open commitments to make additional capital investments totaling $13,745,946 and $7,537,236 at June 30, 2013 and 2012, respectively. The hedge funds and private equity funds are invested in equities, debt instruments, derivatives, and investment partnerships. Redemption periods for hedge funds and private equity funds, other than investment partnerships, vary by the investment managers' terms and can range from 15 days to 1 year, with various other restrictions and penalties possible. Investment partnerships are held for an indefinite period, determined by the liquidation of the underlying funds of the investment.

Note 2. Investments (Continued)

The following table sets forth additional disclosures of the University's investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2013 and 2012, respectively:

Investment	2013 Fair Value	2012 Fair Value	2013 Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge Funds: (a)					
Common Sense Offshore Ltd.	$ 3,509,063	$ 3,537,043	$ -	Annually	100 Days
Pinehurst Institutional Ltd.	7,345,730	6,681,626	-	Annually	100 Days
Aurora Offshore Fund Ltd. II	3,762,639	3,466,008	-	Quarterly	95 Days
Private Equity Funds:					
Axiom International Equity Fund II (b)	-	3,951,924	-	Monthly	15 Days
Columbia Focused Large Cap Growth Private Fund, LLP (c)	-	2,425,803	-	Monthly	30 Days
IR&M Core Bond Fund II LLC (d)	5,165,775	-	-	Monthly	5 Days
Park Street Capital Private Equity Fund X, LP (e)	395,284	180,960	1,570,000	None	NA - see e
Mercer Private Investment Partners, LP (e)	2,516,840	1,990,159	4,525,000	None	NA - see e
Goldman Sachs Vintage Fund V Offshore, LP (e)	1,351,737	1,237,655	531,946	None	NA - see e
Montauk TriGuard Fund V (e)	504,375	143,623	1,035,000	None	NA - see e
Northgate V, LP (e)	662,492	351,124	1,284,000	None	NA - see e
RCP Fund VIII (e)	144,356	-	1,800,000	None	NA - see e
NB Crossroads Fund XX (e) (f)	-	-	3,000,000	None	NA - see e
Other (e)	342	362	-	None	NA - see e

(a) This category includes funds which invest only in partnership funds. Investments in this category can be redeemed on the last business day of the calendar year, fiscal year, or calendar quarter upon giving at least 95 to 100 days prior written notice. The fair value of investment(s) in this category have been estimated using the net asset value per share of the investments.

(b) This category includes an investment in a fund that invests in a portfolio of international equity and equity-related securities of companies whose principal business activities are conducted primarily in countries other than the United States of America. The investment can be redeemed in the last business day of each calendar month upon giving at least 15 days prior written notice. The fair value of investment(s) in this category have been estimated using the net asset value per share of the investments.

(c) This category includes an investment in a fund that invests in a portfolio of domestic equity and equity-related securities of companies whose principal business activities are conducted primarily in the United States of America. The investment can be redeemed in the last business day of each calendar month upon giving at least 30 days prior written notice. The fair value of investment(s) in this category have been estimated using the net asset value per share of the investments.

(d) This category includes an investment in a fund that invests in a portfolio of investment grade fixed income securities. The investment can be redeemed in the last business day of each calendar month upon giving at least 5 days prior written notice. The fair value of investment(s) in this category have been estimated using the net asset value per share of the investments.

(e) This category includes funds which invest only in private equity partnerships. These investments can never be redeemed. Distributions will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 8 to 11 years. The fair value of investment(s) in this category have been estimated using the net asset value per share or capital account provided by the investment manager.

Note 2. Investments (Continued)

(f) A commitment was made during the year ended June 30, 2013 to invest in the NB Crossroads Fund XX. As of June 30, 2013 the investment has not yet been funded.

Note 3. Endowment Fund Invested Assets

Invested assets related to endowment funds (only) consist of the following at June 30, 2013 and 2012:

	2013	2012
Pooled endowment	$ 79,634,993	$ 75,912,710
Funds managed for the benefit of the University	6,758,450	5,169,137
Planned gifts	79,961	79,961
Interest in oil and gas properties	474,169	595,309
Real estate, including farms	26,850,158	23,756,719
	$ 113,797,731	$ 105,513,836
Quasi/unrestricted endowment assets	$ 11,497,019	$ 10,979,851
Temporarily restricted endowment assets	46,953,047	43,481,020
Permanently restricted endowment assets	55,347,665	51,052,965
	$ 113,797,731	$ 105,513,836

Note 4. Contributions Receivable

Pledges included in the financial statements meet the definition of an unconditional promise to give which includes written documentation of the promise and an amount certain. Only gifts to be received over the next ten years are recognized as a contribution receivable. Contributions receivable are disclosed net of their unamortized discount. The unamortized discount for calculating the present value of contributions receivable as of June 30, 2013 and 2012 was $19,547 and $116,838, respectively. Discount rates ranged from 1.2% to 3.2% in each year presented.

The present value of contributions receivable consists of the following as of June 30, 2013:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 10,000	$ 3,383,788	$ 84,190	$ 3,477,978
Due in one to five years	33,915	565,358	40,596	639,869
Due in more than five years	-	-	-	-
	43,915	3,949,146	124,786	4,117,847
Less allowance for uncollectible contributions	1,666	1,667	1,667	5,000
	$ 42,249	$ 3,947,479	$ 123,119	$ 4,112,847

Note 4. Contributions Receivable (Continued)

The present value of contributions receivable consists of the following as of June 30, 2012:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 20,000	$ 2,954,820	$ 201,281	$ 3,176,101
Due in one to five years	42,591	3,292,325	80,520	3,415,436
Due in more than five years	-	-	-	-
	62,591	6,247,145	281,801	6,591,537
Less allowance for uncollectible contributions	555	556	556	1,667
	$ 62,036	$ 6,246,589	$ 281,245	$ 6,589,870

Restricted contributions receivable fall into the following categories:

	2013	2012
Campus building/improvements	$ 3,945,048	$ 6,117,510
Student programs	4,098	129,635
Endowment	124,786	281,801
	4,073,932	6,528,946
Less allowance for uncollectible contributions	3,334	1,112
	$ 4,070,598	$ 6,527,834

Of the contributions receivable outstanding, approximately $240,000 and $567,000 are from Trustees of the University as of June 30, 2013 and 2012, respectively.

The University has received intentions to give in the amount of $34,549,867 as of June 30, 2013. The intentions to give are not recorded in the financial statements.

Note 5. Split-Interest Agreements

The University has entered into several gift annuity agreements which require the University to make annual payments totaling approximately $37,000 to the donors named beneficiaries over their respective life expectancies. The present value of these gift annuity liabilities using discount rates ranging from 1.2% to 6.4% was $337,613 and $370,724 as of June 30, 2013 and 2012, respectively.

Note 6. Property and Equipment

The University's property and equipment holdings as of June 30, 2013 and 2012 are as follows:

	2013	2012
Land	$ 11,534,380	$ 10,818,047
Construction in progress	2,178,189	1,416,230
Buildings	130,675,692	125,726,426
Equipment and other	5,117,861	4,431,818
Land improvements and other	13,394,206	13,256,742
	162,900,328	155,649,263
Less accumulated depreciation and amortization	65,903,462	61,596,128
	$ 96,996,866	$ 94,053,135

Note 7. Capital Lease Obligation

In 1996, the University entered into an agreement with a developer to construct and operate additional student housing on University land. The agreement, which was restated and amended in 2004 and 2008, expires in August 2033, at which time the property reverts back to the University. During the term of the agreement, the developer is responsible for construction costs and all costs attendant to the operation and maintenance of the facility. There are 619 student apartment beds in the facility and the University has guaranteed the developer an occupancy rate of 92.5%, which is 573 beds. The University is accounting for the agreement as a capitalized lease arrangement. Assets capitalized under this agreement total $16.1 million and are included in buildings in Note 6. Accumulated amortization was $5,524,369 and $5,119,783 as of June 30, 2013 and 2012, respectively. The annual charge for amortization is included in depreciation and amounted to $404,586 for the years ended June 30, 2013 and 2012. The lease obligation as of June 30, 2013 and 2012 was $11,166,792 and $11,520,060, respectively, and was computed based on the present value of the minimum payments due under the agreement using a 4% discount factor. The estimated minimum lease payments to retire the lease obligation is approximately $800,000 per year and total approximately $16.1 million through August 2033.

Note 8. Line of Credit

The University has a $4,000,000 revolving bank line of credit expiring in January 2016. At June 30, 2013 and 2012, there were no funds borrowed against this line. The line is uncollateralized. Interest on any outstanding balance varies with LIBOR, and was 0.19% plus the bank's rate of 2% for a total of 2.19% on June 30, 2013, and is payable monthly.

Note 9. Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2013 and 2012:

	2013	2012
1998 Bond - Series A - Revenue refunding bonds	$ -	$ 10,000,000
1998 Bond - Series B - Revenue refunding bonds	-	145,000
2010 Bond - Revenue bonds	13,087,500	13,450,000
2012 Bond - Revenue refunding bonds	9,560,000	-
	$ 22,647,500	$ 23,595,000

The following is a summary of annual principal payments on the obligations outstanding as of June 30, 2013, and are due in future years as follows:

Years Ending June 30,	Series 2010	Series 2012	Total
2014	$ 500,000	$ 1,025,000	$ 1,525,000
2015	450,000	1,095,000	1,545,000
2016	412,500	1,175,000	1,587,500
2017	375,000	1,265,000	1,640,000
2018	325,000	1,350,000	1,675,000
Due after 2018	11,025,000	3,650,000	14,675,000
	$ 13,087,500	$ 9,560,000	$ 22,647,500

Total interest expense for the 1998, 2010, and 2012 bond issues for the years ended June 30, 2013 and 2012 was $818,107 and $959,391, respectively.

The bond agreements require the University to satisfy certain measures of financial performance as long as the bonds are outstanding.

Series 1998 A and B Bonds: During December 1998, the University entered into an Irrevocable Escrow Agreement to defease the County of Macon Revenue Bonds, Series 1995. Cash was placed with the Escrow Agent to purchase U.S. Government securities to service all principal and interest payments on the remaining bonds. The deposit was determined to be sufficient to discharge the University's remaining obligations from the Series 1995 bond issue. The principal defeased of $4,913,736 has been paid in full.

The University received the cash to defease the bonds through the issuance of $14,480,000 County of Macon, Revenue Refunding Bonds, Series 1998A and 1998B. The bonds were payable serially over a 22-year period. In September 2012, the Series 1998B bonds were paid in full, and in December 2012, the Series 1998A bonds were paid in full.

In connection with the 1998 bond series, the University had agreed not to incur additional debt unless the following conditions were met: unrestricted net assets less unrestricted net plant shall equal or exceed 75% of the principal debt outstanding, and the maximum annual debt service requirement is not greater than 15% of unrestricted total revenue.

Note 9. Long-Term Debt (Continued)

Bond issuance costs in the amount of $674,021 were incurred for bond insurance, the underwriter's fee, bond counsel and other related costs. These were being amortized over the 20-year period of the bonds. Amortization for the years ended June 30, 2013 and 2012 was $250,934 and $31,367, respectively.

U.S. Bank, N.A. was named trustee under a Trust Indenture dated November 1998 from the County of Macon.

Series 2010 Bonds: In December 2010, County of Macon issued $13,750,000 in revenue bonds for the University. The proceeds from the bonds were used to repay the long-term note that was previously issued to repay the 1999 bond series. The bonds mature in the year 2035; however, the bond holder has an option to require payment in full in December 2020. Semiannual interest payments are payable over the initial ten-year period and are calculated using 65% of the sum of the one month LIBOR rate plus 1.85%. The bond in its entirety is covered by an interest rate swap agreement for the initial ten-year period (see Note 10).

In connection with the 2010 bond series, the University has agreed to maintain a debt service coverage ratio of at least 1.15 to 1.00 and a cash and investments to debt ratio of at least 1.00 to 1.00.

Bond issuance costs in the amount of $122,500 were incurred for bond issuance, the underwriter's fee, bond counsel, and other related costs. These are being amortized over the ten-year period of the bonds. Amortization for the years ended June 30, 2013 and 2012 was $12,250 and $16,528, respectively.

PNC Bank, National Association was designated as trustee under a Trust Indenture dated December 2010 from the County of Macon.

Series 2012 Bonds: In December 2012, County of Macon issued $9,680,000 in revenue refunding bonds for the University. The proceeds from the bonds were used to repay the 1998 bond series. The bonds mature in the year 2020. Semiannual interest payments are payable over the eight-year period and are calculated using an annual interest rate of 2.10%.

In connection with the 2012 bond series, the University has agreed to maintain a debt service coverage ratio of at least 1.15 to 1.00 and a cash and investments to debt ratio of at least 1.00 to 1.00.

Bond issuance costs in the amount of $139,443 were incurred for bond issuance, the underwriter's fee, bond counsel, and other related costs. These are being amortized over the eight-year period of the bonds. Amortization for the year ended June 30, 2013 was $11,760.

PNC Bank, National Association was designated as trustee under a Trust Indenture dated December 2012 from the County of Macon.

Note 10. Derivative Financial Instruments

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into an interest rate swap agreement for its floating rate debt. The agreement provides for the University to pay interest to the trustee of the 2010 bond at LIBOR plus 1.85% on notional amounts of $13,087,500 at June 30, 2013. The University is required to pay interest to the counterparty for the difference between actual interest paid to the trustee and the fixed rate of 3.5% on the outstanding principal of the 2010 bond, when the interest rate paid is less than 3.5%. If interest paid is greater than 3.5% of the outstanding principal of the 2010 bond, the counterparty reimburses the University the difference between actual interest paid to the trustee and 3.5% of the outstanding principal of the 2010 bond.

Note 10. Derivative Financial Instruments (Continued)

Under the agreement, the University pays or receives the net interest amount semiannually, with the semiannual settlements included in interest expense. The agreement is recorded at its fair value with subsequent changes in fair value included in other changes in net assets. The agreement matures on December 14, 2020, and has a liability fair value of $808,711 and $1,331,222 at June 30, 2013 and 2012, respectively.

Note 11. Expenses

Expenses by functional classification, allocating depreciation, interest on indebtedness, bad debt expense and operation and maintenance of plant for the years ended June 30, 2013 and 2012, is as follows:

	2013	2012
Instruction	$ 20,267,049	$ 19,896,459
Academic support	3,196,904	3,084,103
Student services	9,689,233	9,173,255
Institutional support	8,039,555	7,633,569
Auxiliary enterprises	9,380,732	8,588,034
Fundraising	1,199,855	1,179,304
	$ 51,773,328	$ 49,554,724

Note 12. Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes and periods:

	2013	2012
Scholarships/prizes	$ 622,181	$ 585,079
Professorships	992	2,254
Pledges receivable	3,947,479	6,246,589
Other gifts/donations	1,121,891	663,371
Perpetual trust agreements and annuities	3,814,113	3,519,662
Future campus building	8,680,645	6,687,547
Loans to students	59,657	59,654
Grants	954,149	1,179,250
Unappropriated gains	46,668,047	43,233,520
	$ 65,869,154	$ 62,176,926

During the fiscal years ended June 30, 2013 and 2012, the following net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2013	2012
Purpose restrictions accomplished	$ 12,535,481	$ 5,583,098
Funds with unrestricted purposes	1,103,781	1,052,097
Total restrictions released	$ 13,639,262	$ 6,635,195

Note 12. Net Assets (Continued)

Permanently restricted net assets at June 30, 2013 and 2012 are restricted to:

	2013	2012
Investments held in perpetuity, the income from which is expendable to support:		
Scholarships/prizes	$ 31,831,392	$ 31,077,623
Professorships	3,767,619	3,766,909
Library	154,875	154,875
Other	12,905,131	10,981,323
Perpetual trust agreements and annuities	6,688,648	5,072,235
	55,347,665	51,052,965
Pledges receivable, primarily for scholarships	123,119	281,245
	$ 55,470,784	$ 51,334,210

Note 13. Retirement Plan

All full-time employees are eligible to participate in a 403(b) defined-contribution plan sponsored by the University, which is administered by the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. When employee contributions to the plan are 5% of eligible compensation, the University provides a matching contribution of 6% of eligible compensation. After six years of employment, employees are required to participate in the plan and contribute 5% of their compensation. The total University contributions to this plan amounted to $859,581 and $826,317 for the years ended June 30, 2013 and 2012, respectively.

Note 14. Self Insurance

The University provides group major medical and dental insurance coverage for its full-time, regular employees and their families by means of a program which is primarily self funded by the University. A $75 per month employee contribution is required for their medical coverage as well as a $5 per month contribution for dental coverage. Coverage for dependents may be elected with the employee paying $300 per month for the cost of their medical insurance and $61.93 per month for the cost of their dental insurance. Deductibles and co-payments up to specified limits are required on all claims. The University insures for losses up to the stop loss limit of $100,000 on an individual claim as well as 125% expected aggregate claims basis, and a third-party administrator handles most administrative operations. Claims and operating expenses of the plan amounted to $2,632,189 and $2,365,449 for the years ended June 30, 2013 and 2012, respectively. The estimated liability for claims payable and claims incurred but not yet reported as of June 30, 2013 and 2012 of $312,450 and $288,800, respectively, is included in accounts and other payables in the statements of financial position.

Note 15. Concentrations of Credit Risk

The University maintains its cash accounts with financial institutions in amounts, which at times, may be in excess of the FDIC insurance limit. The University has not experienced any losses in these accounts and believes it is not exposed to any significant credit risks.

Note 16. Commitments, Contingencies and Subsequent Events

The University has an agreement with the Decatur Park District in connection with the Decatur Indoor Sports Center, which is accounted for as an operating lease. The University agrees to reimburse the Decatur Park District for half of any losses at the facility or share in half of the profits; reimburse for half of the original mortgage; and pay a user fee to allow student access to the facility. The facility was constructed on University land. During the years ended June 30, 2013 and 2012, the University paid the Park District $292,648 and $281,081, respectively, for use of the facility.

The University entered into a contract during June 2008 with ARAMARK Educational Services, LLC, to provide dining services for the University's students, effective July 2008, and expiring June 2018. The contract also provides that ARAMARK Educational Services will make a financial commitment to the University for $1,750,000 over five years, to be earned by the University at a straight-line rate of amortization over the life of the contract. The commitment is to be used for additions of equipment and improvements to the various dining areas on campus. Also, in 2008, the University amended and restated the agreement with ARAMARK Management Services Limited Partnership, who currently provides facility services, to extend the contract to June 2019. The contract also provides that ARAMARK Management Services Limited Partnership will make a financial commitment to the University for $1,000,000 over five years or thereafter, to be earned by the University at a straight-line rate of amortization over the life of the contract. It is the University's understanding that $1,000,000 from the ARAMARK Management Services Limited Partnership contract and $1,050,000 from the ARAMARK Educational Services contract will be spent on build-outs of food service facilities in a new student union. In April of 2013, the agreement was further amended to extend the expiration date through June 30, 2024 and to remove the financial commitments outlined above. Aramark also agreed in exchange for the extension to provide the University with a financial commitment of $500,000 for dining program facility improvements and renovations and related projects. No amounts have been received related to this financial commitment as of June 20, 2013. Remaining deferred revenue related to the other amounts received under the contracts and applied to upgrades for existing facilities and equipment totaled $367,941 and $441,529 as of June 30, 2013 and 2012, respectively. Amortization of deferred revenue arising from other amounts received under the contracts for both the years ended June 30, 2013 and 2012 was $73,588.

The University has various signed agreements and purchase orders with construction contractors. The total remaining commitment of these agreements at June 30, 2013 is approximately $110,000.

The University is involved in certain claims and legal proceedings arising in the ordinary course of its business. It is the opinion of management that any liability of the University with respect to these actions will not materially affect its financial position or operations.

Note 17. Fair Value Disclosures

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents: Because of the short maturity of cash equivalents, the carrying amount approximates fair value.

Investments: Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or other valuation methods.

Contributions receivable: The carrying amount is a reasonable estimate of fair value because of the present value discount included in the carrying amount.

Note 17. Fair Value Disclosures (Continued)

Accounts receivable: The carrying amount is a reasonable estimate of fair value due to the short period of time between their origination and expected realization.

Long-term debt: Fair value is estimated based on the borrowing rates currently available to the University for debt with similar terms and maturities.

Notes receivable: The fair value is based on current student loan rates and estimated average term of the notes.

Interest rate swap agreement: Fair value is estimated by a third party. The fair value of the interest rate swap is the estimated amount the University would receive (asset) or pay (liability) to terminate the swap agreement at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of the University for liabilities.

Advances from U.S. government: The fair value of the advances from the U.S. government is indeterminable because they are subject to significant restrictions.

Split-interest agreements: A liability for split interest agreements is recorded based on the present value of discounted expected cash flows and life expectancies.

The following table presents the carrying amounts and estimated fair values of the University's financial instruments at June 30, 2013 and 2012.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 24,104,256	$ 24,104,256	$ 22,817,989	$ 22,817,989
Accounts receivable, net	774,171	774,171	830,212	830,212
Investments	117,501,864	117,501,864	108,910,413	108,910,413
Contributions receivable, net	4,112,847	4,112,847	6,589,870	6,589,870
Notes receivable, net	2,517,386	3,688,721	2,634,182	4,860,061
Financial liabilities:				
Long-term debt	22,647,500	22,647,500	23,595,000	23,595,000
Interest rate swap agreement	808,711	808,711	1,331,222	1,331,222

Note 17. Fair Value Disclosures (Continued)

Fair Values Measurements

The fair value standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The topic requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy 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.

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.

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

Investments: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, and asset-backed securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation including alternative investments and real estate, securities are classified within Level 3 of the valuation hierarchy. Level 3 securities include private equity partnerships and fund of funds investments, for which the value is based on the underlying funds. The underlying funds may value their investments using various methods, including quoted market prices for those securities listed on a national securities exchange, private market comparable transactions, public market comparable valuations, and discounted cash flows. Level 3 also includes interest in oil and gas properties. The value of the interest in oil and gas properties is based on the market conditions approach, using net income to calculate the value of the producing properties. Level 3 also includes real estate, including farms, values of which are based on recent appraisals and market conditions.

Funds held in trust by others: The value of charitable lead/remainder unitrusts is derived from the underlying investments of the unitrusts. The value of those investments is determined in the same manner as investments described above.

Note 17. Fair Value Disclosures (Continued)

Assets and liabilities recorded at fair value on a recurring basis:

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2013, 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, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 543,073	$ 543,073	$ -	$ -
Common stocks:				
Consumer discretionary	22,456	22,456	-	-
Energy	11,917	11,917	-	-
Health care	11,092	11,092	-	-
Industrials	25,327	25,327	-	-
Information technology	20,749	20,749	-	-
Utilities	4,694	4,694	-	-
Mutual funds:				
Large cap funds	19,499,033	19,499,033	-	-
International funds	23,713,950	23,713,950	-	-
Blended funds	227,654	227,654	-	-
Fixed income	10,374,467	10,374,467	-	-
Hedge funds	14,617,432	-	-	14,617,432
Private equity funds	10,741,201	-	5,165,775	5,575,426
Real estate, including farms	26,850,158	-	-	26,850,158
Interest in oil and gas properties	474,169	-	-	474,169
Funds held in trust by others	10,364,492	-	-	10,364,492
	$ 117,501,864	$ 54,454,412	$ 5,165,775	$ 57,881,677
Liabilities:				
Interest rate swap agreement	$ 808,711	$ -	$ -	$ 808,711

Note 17. Fair Value Disclosures (Continued)

Assets and liabilities recorded at fair value on a recurring basis:

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2012, 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			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 1,606,599	$ 1,606,599	$ -	$ -
Common stocks:				
Consumer discretionary	9,270	9,270	-	-
Energy	24,848	24,848	-	-
Health care	6,306	6,306	-	-
Industrials	14,301	14,301	-	-
Information technology	26,518	26,518	-	-
Materials	7,666	7,666	-	-
Telecommunications	4,587	4,587	-	-
Mutual funds:				
Large cap funds	18,226,766	18,226,766	-	-
International funds	17,737,645	17,737,645	-	-
Blended funds	198,551	198,551	-	-
Fixed income	4,873,287	4,873,287	-	-
Bonds:				
U.S. treasury securities	1,292,963	1,292,963	-	-
U.S. agency securities	353,320	-	353,320	-
Municipal bonds	423,199	-	423,199	-
Corporate bonds	2,748,627	-	2,748,627	-
Asset-backed securities	4,584,016	-	4,584,016	-
Hedge funds	13,684,677	-	-	13,684,677
Private equity funds	10,281,610	-	6,377,727	3,903,883
Real estate, including farms	23,756,719	-	-	23,756,719
Interest in oil and gas properties	595,309	-	-	595,309
Funds held in trust by others	8,453,629	-	-	8,453,629
	$ 108,910,413	$ 44,029,307	$ 14,486,889	$ 50,394,217
Liabilities:				
Interest rate swap agreement	$ 1,331,222	$ -	$ -	$ 1,331,222

Note 17. Fair Value Disclosures (Continued)

The following table presents 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.

	Hedge and Private Equity Funds	Real Estate, Including Farms	Interest in Oil and Gas Properties	Funds Held in Trust by Others
		2013		
Balance, beginning of year	$ 17,588,560	$ 23,756,719	$ 595,309	$ 8,453,629
Total gains or losses (realized/unrealized) included in change in net assets	1,262,572	1,695,064	(121,140)	454,736
Purchases and other additions	1,502,978	1,398,375	-	1,475,894
Sales and distributions	(161,252)	-	-	(19,767)
Balance, end of year	$ 20,192,858	$ 26,850,158	$ 474,169	$ 10,364,492
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 June 30, 2013	$ 1,262,572	$ 1,695,064	$ (121,140)	$ 470,673
		2012		
Balance, beginning of year	$ 13,911,701	$ 19,585,360	$ 540,804	$ 9,758,224
Total gains or losses (realized/unrealized) included in change in net assets	468,290	2,332,049	54,505	1,027,937
Purchases and other additions	4,915,428	1,839,310	-	-
Sales and distributions	(1,706,859)	-	-	(2,332,532)
Balance, end of year	$ 17,588,560	$ 23,756,719	$ 595,309	$ 8,453,629
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 June 30, 2012	$ 531,319	$ 2,332,049	$ 54,505	$ 198,572

Gains and losses included in change in net assets for the period above are reported as realized and unrealized gains (losses) on investments.

There were no transfers between Levels 1, 2 or 3 of the fair value hierarchy during the year ended June 30, 2013.

Note 18. Conditional Asset Retirement Obligation

The University 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. Generally accepted accounting principles require the fair value of a liability for a legal obligation associated with an asset retirement 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. Substantially all of the conditional asset retirement obligation relates to the estimated cost to remove asbestos from campus facilities.

Changes in the accrual for asset retirement obligation during the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Beginning accrual	$ 2,478,517	$ 2,333,820
Liabilities incurred in current period	-	-
Accretion of asset retirement liability	153,668	144,697
Ending accrual	$ 2,632,185	$ 2,478,517

Note 19. Endowments

The University's Endowment Fund consists of various donor restricted endowment funds and funds designated as endowment (quasi-endowment) by the Board of Trustees. The University considers contributions as part of the endowment only after the funds have been received and are available for investment. Net assets associated with endowment funds, including quasi-endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the 2009 Illinois legislature applicable to institutional funds in existence on June 30, 2009. The term "Institutional Fund" includes the endowment fund of the University, but it does not include the University's program-related assets.

For financial reporting purposes, the University was required to adopt and has adopted the Financial Accounting Standards Board's guidance on the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective July 1, 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the UPMIFA and improves disclosures for endowment funds, both donor-restricted and quasi-endowment.

As a result, Millikin University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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.

Note 19. Endowments (Continued)

The University has adopted investment and spending policies for its 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 8.7-9.7%; 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. Diversification also moderates the overall investment risk of the Endowment Fund.

The Board of Trustees of Millikin 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; i.e., the spending policy, is a Board approved calculation to take the prior year endowment draw increased by a percent equal to the average of the last five years' inflation rate. The draw may be taken from all funds, even if the fund falls below 100% of historic dollar value.

Endowment net assets as of June 30, 2013 and 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		2013		
Donor-restricted endowment funds	$ (207,728)	$ 48,377,142	$ 55,347,665	$ 103,517,079
Board-designated quasi-endowment funds	11,750,711	-	-	11,750,711
Total endowment funds	$ 11,542,983	$ 48,377,142	$ 55,347,665	$ 115,267,790
		2012		
Donor-restricted endowment funds	$ (364,216)	$ 44,903,738	$ 51,052,965	$ 95,592,487
Board-designated quasi-endowment funds	11,388,941	-	-	11,388,941
Total endowment funds	$ 11,024,725	$ 44,903,738	$ 51,052,965	$ 106,981,428

Endowment net assets include unappropriated balances in donor restricted funds associated with endowment funds. The temporarily restricted portion of donor-restricted endowment funds includes realized and unrealized investment gains that have not been appropriated for expenditure in the amount of $46,668,047 and $43,233,520 as of June 30, 2013 and 2012, respectively.

Note 19. Endowments (Continued)

The changes in endowment net assets for the years ended June 30, 2013 and 2012, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		2013		
Endowment net assets, beginning of year	$ 11,024,725	$ 44,903,738	$ 51,052,965	$ 106,981,428
Investment return:				
Investment income	575,228	4,529,182	1,198	5,105,608
Net appreciation/(depreciation) (realized and unrealized)	471,135	4,972,028	-	5,443,163
Change in beneficial interest in perpetual trusts	-	-	302,921	302,921
Total investment return	1,046,363	9,501,210	304,119	10,851,692
Contributions	64,146	39,063	3,990,581	4,093,790
Appropriation of endowment funds for expenditure	(592,251)	(6,066,869)	-	(6,659,120)
Endowment net assets, end of year	$ 11,542,983	$ 48,377,142	$ 55,347,665	$ 115,267,790
		2012		
Endowment net assets, beginning of year	$ 11,089,867	$ 47,904,814	$ 48,979,578	$ 107,974,259
Investment return:				
Investment income	615,767	4,385,137	442	5,001,346
Net appreciation/(depreciation) (realized and unrealized)	(14,779)	(2,515,822)	-	(2,530,601)
Change in beneficial interest in perpetual trusts	-	-	737,264	737,264
Total investment return	600,988	1,869,315	737,706	3,208,009
Contributions	-	11,583	1,335,681	1,347,264
Appropriation of endowment funds for expenditure	(666,130)	(4,881,974)	-	(5,548,104)
Endowment net assets, end of year	$ 11,024,725	$ 44,903,738	$ 51,052,965	$ 106,981,428

Note 19. Endowments (Continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2013 and 2012, are as follows:

	2013	2012
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 55,347,665	$ 51,052,965
Total endowment funds classified as permanently restricted net assets	$ 55,347,665	$ 51,052,965
Temporarily Restricted Net Assets		
Term endowment funds	$ -	$ -
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
With purpose restrictions	1,071,100	1,050,733
Without purpose restrictions	47,306,042	43,853,005
Total endowment funds classified as temporarily restricted net assets	$ 48,377,142	$ 44,903,738

From time to time, the fair value of endowment funds which are permanently restricted by the individual donor may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration, which are called underwater endowments. As of June 30, 2013, $3,428,227 or 7.6% of the University's donor restricted endowment funds were underwater by approximately $148,000. The unrealized loss position on these endowments is reported in unrestricted net assets. These deficiencies, which the University believes are temporary, resulted from unfavorable market fluctuations. As of June 30, 2012, $10,425,565 or 23.9% of the University's donor restricted endowment funds were underwater by approximately $315,000. The unrestricted donor-restricted endowment funds also include $64,000 and $53,000 of unrealized losses for the permanently restricted annuity funds for the years ended June 30, 2013 and 2012, respectively.