

Bellevue University

Accountants' Report and Consolidated Financial Statements

June 30, 2011 and 2010



Bellevue University
June 30, 2011 and 2010

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Independent Accountants' Report

Board of Directors
Bellevue University
Bellevue, Nebraska

We have audited the accompanying consolidated statements of financial position of Bellevue University as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bellevue University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

October 19, 2011

Bellevue University
Consolidated Statements of Financial Position
June 30, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 13,217,111	\$ 17,371,555
Restricted cash and cash equivalents	875,130	13,108,611
Short-term investments	18,354,246	13,191,488
Accounts receivable, net of allowance; 2011 - \$3,123,022, 2010 - \$4,397,293	8,622,171	17,881,280
Other receivables	804,382	773,724
Prepaid expenses and other	1,338,071	1,499,618
Contributions receivable, current portion, net of allowance; 2011 - \$25,000, 2010 - \$150,000	<u>339,856</u>	<u>272,661</u>
Total current assets	<u>43,550,967</u>	<u>64,098,937</u>
Property and Equipment, Net	<u>77,907,322</u>	<u>57,795,080</u>
Other Assets		
Restricted cash and cash equivalents	2,436,261	3,472,853
Contributions receivable, long-term portion	437,264	446,816
Long-term investments	39,518,228	34,195,144
Beneficial interest in lead trust	216,387	233,017
Other	<u>567,163</u>	<u>86,896</u>
	<u>43,175,303</u>	<u>38,434,726</u>
Total assets	<u><u>\$ 164,633,592</u></u>	<u><u>\$ 160,328,743</u></u>

Liabilities and Net Assets

Liabilities		
Current Liabilities		
Current maturities of long-term debt	\$ 3,310,000	\$ 3,250,000
Accounts payable	3,995,528	2,522,647
Accrued expenses	2,210,762	5,799,232
Deferred revenue	<u>8,063,556</u>	<u>7,619,403</u>
Total current liabilities	<u>17,579,846</u>	<u>19,191,282</u>
Long-term debt	<u>17,546,954</u>	<u>21,681,294</u>
Total liabilities	<u>35,126,800</u>	<u>40,872,576</u>
Net Assets		
Unrestricted		
Operating	29,177,762	35,728,281
Board designated	32,053,238	27,931,420
Net investment in plant	54,136,911	43,965,450
Temporarily restricted	5,508,802	3,241,173
Permanently restricted	<u>8,630,079</u>	<u>8,589,843</u>
Total net assets	<u>129,506,792</u>	<u>119,456,167</u>
Total liabilities and net assets	<u><u>\$ 164,633,592</u></u>	<u><u>\$ 160,328,743</u></u>

Bellevue University
Consolidated Statements of Activities
Years Ended June 30, 2011 and 2010

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Tuition and fees	\$ 81,461,920	\$ -	\$ -	\$ 81,461,920
Less college funded scholarships	(3,259,249)	-	-	(3,259,249)
Less federal and state funded scholarships	(1,060,231)	-	-	(1,060,231)
Less corporate partner discounts	(528,252)	-	-	(528,252)
Net tuition and fees	76,614,188	-	-	76,614,188
Investment return	4,689,881	2,010,450	8,994	6,709,325
Private grants, gifts and bequests	341,741	1,179,723	31,242	1,552,706
Other sources	2,293,702	-	-	2,293,702
Reclassification in accordance with donor intent	-	-	-	-
Net assets released from restrictions	922,544	(922,544)	-	-
Total revenues, gains and other support	84,862,056	2,267,629	40,236	87,169,921
Expenses				
Instructional	21,284,613	-	-	21,284,613
Academic support	3,163,283	-	-	3,163,283
Student services	21,867,347	-	-	21,867,347
Total program services	46,315,243	-	-	46,315,243
General institutional support	29,518,476	-	-	29,518,476
Fundraising	1,285,577	-	-	1,285,577
Total expenses	77,119,296	-	-	77,119,296
Change in Net Assets	7,742,760	2,267,629	40,236	10,050,625
Net Assets, Beginning of Year	107,625,151	3,241,173	8,589,843	119,456,167
Net Assets, End of Year	\$ 115,367,911	\$ 5,508,802	\$ 8,630,079	\$ 129,506,792

See Notes to Consolidated Financial Statements

2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 77,178,701	\$ -	\$ -	\$ 77,178,701
(2,180,000)	-	-	(2,180,000)
(663,180)	-	-	(663,180)
(589,946)	-	-	(589,946)
73,745,575	-	-	73,745,575
4,094,863	525,324	146,378	4,766,565
371,802	2,166,291	19,823	2,557,916
1,734,421	-	-	1,734,421
(615,178)	-	615,178	-
1,452,073	(1,452,073)	-	-
80,783,556	1,239,542	781,379	82,804,477
24,263,299	-	-	24,263,299
2,665,024	-	-	2,665,024
20,421,222	-	-	20,421,222
47,349,545	-	-	47,349,545
27,665,516	-	-	27,665,516
983,701	-	-	983,701
75,998,762	-	-	75,998,762
4,784,794	1,239,542	781,379	6,805,715
102,840,357	2,001,631	7,808,464	112,650,452
<u>\$ 107,625,151</u>	<u>\$ 3,241,173</u>	<u>\$ 8,589,843</u>	<u>\$ 119,456,167</u>

Bellevue University
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Change in net assets	\$ 10,050,625	\$ 6,805,715
Items not requiring (providing) operating activities cash flow		
Depreciation and amortization	3,189,233	3,333,060
Loss (gain) on disposal of assets	19,440	(18,008)
Net realized and unrealized gains on investments	(5,683,288)	(3,706,116)
Contributions and investment income received restricted for long-term investment	(40,236)	(166,201)
Contributions received restricted for acquisition of long-lived assets	(148,917)	(490,986)
Changes in		
Accounts receivable – students	9,259,109	9,087,960
Accounts receivable – other	(30,658)	(550,364)
Prepaid expenses and other	(318,720)	(237,970)
Contributions receivable	(57,643)	298,052
Beneficial interest in lead trust	16,630	15,702
Accounts payable	(126,279)	(1,448,957)
Accrued expenses	(3,588,470)	2,732,817
Deferred revenue	444,153	(12,148,440)
	<u>12,984,979</u>	<u>3,506,264</u>
Net cash provided by operating activities		
Investing Activities		
Proceeds from sale of property and equipment	13,625	21,549
Purchase of property and equipment	(21,753,270)	(8,673,181)
Proceeds from sales of investments	12,940,970	23,383,845
Purchases of investments	(17,743,524)	(20,746,035)
	<u>(26,542,199)</u>	<u>(6,013,822)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment	40,236	166,201
Proceeds from contributions restricted for acquisition of long-lived assets	148,917	490,986
Proceeds from issuance of long-term debt	6,808,550	17,351,250
Principal payments on long-term debt	(10,865,000)	(2,013,916)
	<u>(3,867,297)</u>	<u>15,994,521</u>
Net cash provided by (used in) financing activities		
Increase (Decrease) in Cash and Cash Equivalents	(17,424,517)	13,486,963
Cash and Cash Equivalents, Beginning of Year	<u>33,953,019</u>	<u>20,466,056</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,528,502</u>	<u>\$ 33,953,019</u>

Bellevue University
Consolidated Statements of Cash Flows - Continued
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position		
Current cash and cash equivalents	\$ 13,217,111	\$ 17,371,555
Current restricted cash and cash equivalents	875,130	13,108,611
Other restricted cash and cash equivalents	2,436,261	3,472,853
	\$ 16,528,502	\$ 33,953,019
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 123,512	\$ 474,089
Accounts payable incurred for purchase of property and equipment	\$ 2,913,459	\$ 1,314,299

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

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

Nature of Operations

Bellevue University (the "University") is a not-for-profit University incorporated in the State of Nebraska. The University's mission and principal activities are to provide quality professional, business, and liberal arts education at the undergraduate level and professional graduate degrees.

Bellevue University Foundation (the "Foundation") was established in November 1985 to assume the fundraising activities of the University. Although the Foundation is a separate legal entity, the majority of the revenues and expenditures of the Foundation flow directly to the University. All activity of the Foundation is included in the accompanying financial statements.

Use of Estimates

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

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and cash equivalents consists of funds held by the bond trustee for construction purposes and repayment of indebtedness. Cash equivalents consist primarily of money market mutual funds.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2011, the University's interest-bearing cash accounts exceeded federally insured limits by approximately \$8,800,000. Of this amount, approximately \$8,024,000 is collateralized by investments in U.S. government agency securities pledged in the University's name.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments, including money market funds, certificates of deposit and repurchase agreements are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Investments and Investment Return - Continued

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly 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.

Accounts Receivable and Deferred Revenues

Students become financially liable for tuition and fees upon registration. Historically for students enrolling in the cohort/accelerated programs, students were considered liable for the whole program upon registration no matter when the classes started. To the extent that tuition charges and fees related to the following fiscal year, such amounts were recorded as deferred revenues at June 30 and amortized over the corresponding educational term. During 2010, the University implemented a new ERP system which included student accounts and records modules. These modules allowed the University to modify the way enrollment information is captured allowing students to register for cohort programs by terms and therefore becoming financially liable for each term rather than the entire program.

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 term unless the student has signed a payment plan. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student. As noted above, the University implemented new student accounts and enrollment modules during 2010. Due to difficulties in implementation, the University was unable to process student aid and bill students on a timely basis which increased the age and amount of the accounts receivable in 2010.

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Fixed assets are depreciated according to their useful lives as follows:

Buildings	50 years
Equipment	10 years
Automobiles and computers	3 – 5 years
Library books	25 years
Software	3 – 10 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest was:

	<u>2011</u>	<u>2010</u>
Total interest expense incurred on borrowings for project during construction	\$ 425,688	\$ 163,078
Interest income from investment of proceeds of borrowings for project	<u>(855)</u>	<u>(428)</u>
Net interest cost capitalized	<u>\$ 424,833</u>	<u>\$ 162,650</u>
Interest capitalized	\$ 424,833	\$ 162,650
Interest charged to expense	<u>86,150</u>	<u>341,625</u>
Total interest incurred	<u>\$ 510,983</u>	<u>\$ 504,275</u>

Long-lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2011 and 2010.

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Beneficial Interest in Trust

The University is the beneficiary under a charitable lead annuity trust administered by an outside party. Under the terms of the trust, the University has the irrevocable right to receive annuity payments for a period of twenty-two years, but never receives the assets held in trust. The estimated value of the expected future cash flows is determined using discount rates at the inception date of the trust.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the University has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the University in perpetuity.

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 statements of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

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.

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

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.

Income Taxes

The University is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

The University files tax returns in the U.S. federal jurisdiction. With a few exceptions, the University is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, general institutional support and fundraising categories based on a square-footage-usage basis and other methods.

Self Insurance

The University has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The University has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$125,000 per employee.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 5,354,146	\$ 4,191,388
Certificates of deposit	1,000,100	1,000,100
Repurchase agreements	<u>12,000,000</u>	<u>8,000,000</u>
Total short-term investments	<u>18,354,246</u>	<u>13,191,488</u>
Equity securities		
Basic materials	572,903	524,590
Conglomerate	1,254,147	1,216,381
Consumer goods	181,458	95,206
Financial	664,805	634,235
Healthcare	352,400	199,913
Industrial goods	155,366	124,401
Services	421,299	464,574
Technology	314,868	105,216
Other	56,268	63,529
Mutual funds		
Diversified emerging	648,264	489,825
Foreign large blend	2,260,782	1,749,114
Intermediate-term bond	14,252,033	14,243,630
Large blend	6,894,570	5,303,772
Large growth	1,802,442	1,356,328
Large value	3,668,491	2,911,749
Mid-cap blend	1,630,613	1,186,993
Mid-cap growth	495,464	341,277
Other	37,310	88,944
Real estate	680,732	518,239
Short term bond	607,725	607,650
Small blend	1,495,361	1,104,185
Taxable fixed income	<u>1,070,927</u>	<u>865,393</u>
Total long-term investments	<u>39,518,228</u>	<u>34,195,144</u>
	<u>\$ 57,872,474</u>	<u>\$ 47,386,632</u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 2: Investments and Investment Return - Continued

Total investment return is comprised of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 1,026,037	\$ 1,060,449
Net realized and unrealized gains on investments reported at fair value	<u>5,683,288</u>	<u>3,706,116</u>
	<u>\$ 6,709,325</u>	<u>\$ 4,766,565</u>

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 376,500	\$ 438,500
Due in one to five years	<u>449,000</u>	<u>462,500</u>
	825,500	901,000
Less		
Allowance for uncollectible contributions	25,000	150,000
Unamortized discount	<u>23,380</u>	<u>31,523</u>
	<u>\$ 777,120</u>	<u>\$ 719,477</u>

Discount rates ranged from 1% to 3% for 2011. A discount rate of 2% was used in 2010.

These contributions receivable are classified as follows:

	<u>2011</u>	<u>2010</u>
Current portion of contributions receivable	\$ 339,856	\$ 272,661
Long-term portion of contributions receivable	<u>437,264</u>	<u>446,816</u>
	<u>\$ 777,120</u>	<u>\$ 719,477</u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 4: Property and Equipment

Property and equipment at June 30 consists of:

	<u>2011</u>	<u>2010</u>
Land	\$ 8,171,869	\$ 8,171,869
Buildings and improvements	38,262,543	38,037,292
Equipment	25,439,698	23,064,587
Construction in progress	<u>25,499,556</u>	<u>6,703,069</u>
	97,373,666	75,976,817
Less accumulated depreciation	<u>19,466,344</u>	<u>18,181,737</u>
	<u><u>\$ 77,907,322</u></u>	<u><u>\$ 57,795,080</u></u>

Note 5: Long-term Debt

	<u>2011</u>	<u>2010</u>
Development revenue bonds, Series 2005 net of unamortized premium; 2011 - \$0, 2010 - \$64,267 (A)	\$ -	\$ 7,564,267
Development revenue bonds, Series 2010A net of unamortized discount; 2011 - \$107,506, 2010 - \$132,973 (B)	15,642,494	17,367,027
Development revenue bonds, Series 2010B net of unamortized discount; 2011 - \$30,540, 2010 - \$0 (C)	<u>5,214,460</u>	<u>-</u>
	20,856,954	24,931,294
Less current maturities	<u>3,310,000</u>	<u>3,250,000</u>
	<u><u>\$ 17,546,954</u></u>	<u><u>\$ 21,681,294</u></u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 5: Long-term Debt - Continued

- (A) Obligations issued by the City of Bellevue, Nebraska loaned to and guaranteed by the University; maturing serially at constant amounts through June 1, 2015; semiannual interest payments at rates ranging from 2.75% to 4.50%; secured by a mortgage, security agreement, assignment of rents and first lien on land and buildings and improvements constructed from proceeds of the bond issue. These bonds were refunded during 2010 and paid in full.
- (B) Obligations issued by the City of Bellevue, Nebraska loaned to and guaranteed by the University; maturing serially at constant amounts through December 1, 2019; semiannual interest payments at rates ranging from 0.90% to 3.85%; secured by a mortgage, security agreement, assignment of rents and first lien on land and buildings and improvements constructed from proceeds of the bond issue. The University is subject to certain financial covenants in connection with this debt.
- (C) Obligations issued by the City of Bellevue, Nebraska loaned to and guaranteed by the University; maturing serially through June 1, 2014; semiannual interest payments at rates ranging from 0.70% to 1.40%; secured by a mortgage and security interest in all future tuition and fees. The University is subject to certain financial covenants in connection with this debt.

Aggregate annual maturities of long-term debt at June 30, 2011, are:

2012	\$ 3,310,000
2013	3,270,000
2014	3,915,000
2015	1,750,000
2016	1,750,000
Thereafter	<u>7,000,000</u>
	20,995,000
Less unamortized bond discount	<u>(138,046)</u>
	<u><u>\$ 20,856,954</u></u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 6: Net Assets

Board Designated Unrestricted Net Assets

Included in the Board designated unrestricted net asset balances are amounts designated by the Board for specific purposes as follows:

	<u>2011</u>	<u>2010</u>
Amount designated to establish the maintenance endowment	\$ 1,484,051	\$ 1,293,213
Amount designated as other quasi endowment fund	<u>30,569,187</u>	<u>26,638,207</u>
	<u>\$ 32,053,238</u>	<u>\$ 27,931,420</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 993,276	\$ 486,666
General education	4,426,789	2,688,675
Athletics	78,262	65,832
American Vision and Values	<u>10,475</u>	<u>-</u>
	<u>\$ 5,508,802</u>	<u>\$ 3,241,173</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	<u>2011</u>	<u>2010</u>
Investment in perpetuity, the income of which is expendable to support		
Student scholarships	\$ 4,113,080	\$ 4,072,844
Faculty enhancements	1,144,405	1,144,405
Business areas	<u>3,372,594</u>	<u>3,372,594</u>
	<u>\$ 8,630,079</u>	<u>\$ 8,589,843</u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 6: Net Assets - Continued

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2011	2010
Scholarships	\$ 568,534	\$ 559,152
Campus expansion	149,144	493,466
General education	184,678	349,117
Student services	3,687	22,289
Other	16,501	28,049
	\$ 922,544	\$ 1,452,073

Note 7: Endowment

Interpretation of State Law

The University's endowment consists of 43 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body has interpreted the State of Nebraska Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the University and the fund

Bellevue University
Notes to Consolidated Financial Statements
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Note 7: Endowment - Continued

Interpretation of State Law - Continued

3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

Investment and Spending Policies

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the University must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the University's policies, endowment assets are invested in a manner that is intended to obtain the best possible total return on investments commensurate with an appropriate degree of risk. The University expects its endowment funds to provide an average rate of return of approximately 5-6% above inflation over a three to five year market period. Actual returns in any given year may vary from this amount.

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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy (the spending policy) of appropriating for expenditure each year up to 4.5% of its endowment fund's average fair value over the prior three-year period. In establishing this policy, the University considered the long-term expected return on its endowment. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 7: Endowment - Continued

Composition of Endowment Net Assets

The composition of net assets by type of endowment fund at June 30 was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ 185,227	\$ 2,711,739	\$ 8,630,079	\$ 11,527,045
Board-designated endowment funds	32,053,238	-	-	32,053,238
Total endowment funds	<u>\$ 32,238,465</u>	<u>\$ 2,711,739</u>	<u>\$ 8,630,079</u>	<u>\$ 43,580,283</u>
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (104,979)	\$ 701,289	\$ 8,589,843	\$ 9,186,153
Board-designated endowment funds	27,931,420	-	-	27,931,420
Total endowment funds	<u>\$ 27,826,441</u>	<u>\$ 701,289</u>	<u>\$ 8,589,843</u>	<u>\$ 37,117,573</u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 7: Endowment - Continued

Changes in Endowment Net Assets

Changes in endowment net assets for the years ended June 30 was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 27,826,441	\$ 701,289	\$ 8,589,843	\$ 37,117,573
Investment return				
Investment income	627,064	196,395	-	823,459
Net appreciation	3,791,240	1,814,055	8,994	5,614,289
Total investment return	4,418,304	2,010,450	8,994	6,437,748
Contributions	-	-	31,242	31,242
Appropriation of endowment assets expenditure	(6,280)	-	-	(6,280)
Endowment net assets, end of year	\$ 32,238,465	\$ 2,711,739	\$ 8,630,079	\$ 43,580,283

Bellevue University
Notes to Consolidated Financial Statements
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Note 7: Endowment - Continued

Changes in Endowment Net Assets - Continued

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 23,974,969	\$ 175,965	\$ 7,808,464	\$ 31,959,398
Investment return:				
Investment income	655,898	182,813	-	838,711
Net appreciation	3,208,777	342,511	146,378	3,697,666
Total investment return	3,864,675	525,324	146,378	4,536,377
Contributions	-	-	19,823	19,823
Reclassification in accordance with donor intent	-	-	615,178	615,178
Appropriation of endowment assets expenditure	(13,203)	-	-	(13,203)
Endowment net assets, end of year	\$ 27,826,441	\$ 701,289	\$ 8,589,843	\$ 37,117,573

Permanently restricted net assets at June 30, 2011 and 2010 consisted of perpetual endowment funds required to be retained permanently by explicit donor stipulation. Temporarily restricted net assets at June 30, 2011 and 2010 consisted of perpetual endowment funds subject to a time restriction under SPMIFA and donor-specified purpose restrictions.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$16,409 and \$222,951 at June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during 2011 and 2010. Unrestricted net assets also include assets appropriated for expenditure and released from restriction, but not yet spent.

Bellevue University
Notes to Consolidated Financial Statements
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Note 8: Related Party Transactions

The University has engaged in certain transactions with individuals and other companies affiliated with management and the Board of Directors. The Board of Directors completes conflict of interest surveys each year. Included in these activities, the University has purchased property and casualty insurance from a related party of approximately \$353,000 and \$380,000 during the years ended June 30, 2011 and 2010, respectively. During 2011 and 2010, the University paid \$15,000 and \$27,000, respectively, for legal services with a related party. In addition, the University's primary banking relationship is with a financial institution whose senior officer and shareholder is represented on the University's board.

Note 9: Operating Leases

Noncancellable operating leases for rental of buildings for classrooms, office space, and numerous pieces of equipment expire in various years through 2016. These leases generally contain renewal options for periods ranging from 1 to 5 years.

Future minimum lease payments at June 30, 2011 were:

2012	\$	305,524
2013		148,383
2014		121,915
2015		76,145
2016		44,744
	\$	696,711

Rental expense for all operating leases totaled approximately \$523,000 and \$395,000 for the years ended June 30, 2011 and 2010, respectively.

Note 10: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, 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 at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Bellevue University
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Note 10: Disclosures About Fair Value of Assets and Liabilities - Continued

- Level 2** 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 for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Money Market Funds

Money market funds consist of money market mutual funds where the underlying securities are cash equivalents. Money market funds are classified as Level 1 measurements in the fair value hierarchy and are included in restricted cash and cash equivalents and investments on the statements of financial position.

Equity Securities and Mutual Funds

The University invests in various equity securities and both equity and fixed income mutual funds. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities and equity and fixed income mutual funds. 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 flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Bellevue University
Notes to Consolidated Financial Statements
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Note 10: Disclosures About Fair Value of Assets and Liabilities - Continued

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011 and 2010:

	2011			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds included in cash and cash equivalents	\$ 3,311,391	\$ 3,311,391	\$ -	\$ -
Money market funds	5,354,146	5,354,146	-	-
Equity securities				
Basic materials	572,903	572,903	-	-
Conglomerate	1,254,147	1,254,147	-	-
Consumer goods	181,458	181,458	-	-
Financial	664,805	664,805	-	-
Healthcare	352,400	352,400	-	-
Industrial goods	155,366	155,366	-	-
Services	421,299	421,299	-	-
Technology	314,868	314,868	-	-
Other	56,268	56,268	-	-
Mutual funds				
Diversified emerging	648,264	648,264	-	-
Foreign large blend	2,260,782	2,260,782	-	-
Intermediate-term bond	14,252,033	14,252,033	-	-
Large blend	6,894,570	6,894,570	-	-
Large growth	1,802,442	1,802,442	-	-
Large value	3,668,491	3,668,491	-	-
Mid-cap blend	1,630,613	1,630,613	-	-
Mid-cap growth	495,464	495,464	-	-
Other	37,310	37,310	-	-
Real estate	680,732	680,732	-	-
Short term bond	607,725	607,725	-	-
Small blend	1,495,361	1,495,361	-	-
Taxable fixed income	1,070,927	1,070,927	-	-
	<u>\$ 44,872,374</u>	<u>\$ 44,872,374</u>	<u>\$ -</u>	<u>\$ -</u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 10: Disclosures About Fair Value of Assets and Liabilities - Continued

	2010			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds included in cash and cash equivalents	\$ 16,581,464	\$ 16,581,464	\$ -	\$ -
Money market funds	4,191,388	4,191,388	-	-
Equity securities				
Basic materials	524,590	524,590	-	-
Conglomerate	1,216,381	1,216,381	-	-
Consumer goods	95,206	95,206	-	-
Financial	634,235	634,235	-	-
Healthcare	199,913	199,913	-	-
Industrial goods	124,401	124,401	-	-
Services	464,574	464,574	-	-
Technology	105,216	105,216	-	-
Utilities	63,529	63,529	-	-
Mutual funds				
Diversified emerging	489,825	489,825	-	-
Foreign large blend	1,749,114	1,749,114	-	-
Intermediate-term bond	14,243,630	14,243,630	-	-
Large blend	5,303,772	5,303,772	-	-
Large growth	1,356,328	1,356,328	-	-
Large value	2,911,749	2,911,749	-	-
Mid-cap blend	1,186,993	1,186,993	-	-
Mid-cap growth	341,277	341,277	-	-
Other	88,944	88,944	-	-
Real estate	518,239	518,239	-	-
Short term bond	607,650	607,650	-	-
Small blend	1,104,185	1,104,185	-	-
Taxable fixed income	865,393	865,393	-	-
	<u>\$ 38,386,532</u>	<u>\$ 38,386,532</u>	<u>\$ -</u>	<u>\$ -</u>

Bellevue University
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note 10: Disclosures About Fair Value of Assets and Liabilities - Continued

The following table reconciles the assets shown in this note valued at fair value and the investments shown in Note 2, valued at fair value and under other methods:

	<u>2011</u>	<u>2010</u>
Investments above at fair value	\$ 44,872,374	\$ 38,386,532
Investment in certificates of deposit (cost)	1,000,100	1,000,100
Investment in repurchase agreements (cost)	<u>12,000,000</u>	<u>8,000,000</u>
Total value of investments	<u>\$ 57,872,474</u>	<u>\$ 47,386,632</u>

Other Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair value. The fair value of contributions receivable and beneficial interest in lead trust are estimated using a discounted cash flow model. The fair value of long-term debt is estimated based on the borrowing rates currently available to the University for bonds with similar terms and average maturities and notes with similar terms. Based on the borrowing rates currently available to the University for bonds with similar terms and average maturities and for notes with similar terms, the estimated fair value of long-term debt was \$20,980,000 and \$25,567,000 at June 30, 2011 and 2010, respectively.

Note 11: Pension Plans

The University has a defined contribution pension plan under Section 403(b) covering substantially all employees. The University matches 3-8% of compensation based on contributions of employees who have completed at least one year of service. Pension expense was approximately \$1,197,000 and \$1,124,000 for the years ended June 30, 2011 and 2010, respectively.

Bellevue University
Notes to Consolidated Financial Statements
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Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Uncollectible Accounts

The University has estimated the allowance for uncollectible student accounts based on current student receivable agings and economic conditions. It is reasonably possible that events could occur that would change the estimated allowance amount materially in the near term.

Investments

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is as least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Litigation

The University is subject to certain claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

Current Economic Conditions

The current economic environment continues to present higher education institutions with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, increases in uncollectible student accounts and constraints on liquidity. The financial statements have been prepared using values and information currently available to the University. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for student accounts receivable that could negatively impact the University's ability to meet debt covenants or maintain sufficient liquidity.

Note 13: Commitments

The University has outstanding commitments with a service provider to provide up to \$1,030,000 of funding to help that entity defray operating costs. As of June 30, 2011, approximately \$495,000 has been advanced to that service provider.

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Note 14: Subsequent Events

Subsequent events were evaluated through October 19, 2011, which is the date the financial statements were available to be issued.