Depreciation expense and operation of plant expenses were allocated to various programs and supporting services for the years ended June 30, as follows:

2012	Depreciation Expense	Operation of Plant
Instruction and research	$ 337,217	$ 763,328
Student services	168,608	411,746
Auxillary enterprise	481,739	1,105,125
Academic support	36,130	76,501
Institutional support	72,261	167,033
General administration	96,348	225,720
Operation of plant	12,043	-
Total	$ 1,204,346	$ 2,749,453

2011	Depreciation Expense	Operation of Plant
Instruction and research	$ 332,848	$ 783,378
Student services	166,424	422,561
Auxillary enterprise	475,497	1,134,152
Academic support	35,663	78,510
Institutional support	71,325	171,420
General administration	95,099	231,649
Operation of plant	11,887	-
Total	$ 1,188,743	$ 2,821,670

7. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Conditional asset retirement obligations (CAROs) recorded as of June 30, 2012 and 2011, pertain to the University's legal obligation to abate encapsulated asbestos upon future remodeling or demolishing of certain buildings. The balance of the liability related to CAROs as of June 30, 2012 and 2011, and the change in the liability for each of the years then ended were as follows:

CARO balance, June 30, 2010	$ 232,517
Fiscal year 2011 accretion expense	15,094
CARO liability settled	(51,519)
CARO balance, June 30, 2011	196,092
Fiscal year 2012 accretion expense	11,563
CARO liability settled	(11,075)
CARO balance, June 30, 2012	$ 196,580

8. LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt and notes payable consist of the following at June 30:

	2012	2011
Revenue Bonds Series 2012 payable to the Industrial Development Authority of the City of Fayette with various interest rates ranging from 1.45% to 4.5% and maturities over nineteen years through 2031. Principal and interest is payable semiannually on March 1 and September 1 each year. Secured by a pledge of the University's unrestricted gross revenues. These bonds were issued in April 2012.	$ 8,765,000	$ -
Residential Facilities Revenue Bonds Series 2001 payable to the Industrial Development Authority of the City of Fayette with various interest rates ranging from 3.75% to 5.2% and maturities over thirty years through 2031. Principal and interest is payable semiannually on March 1 and September 1 each year. Secured by a pledge of the University's unrestricted gross revenues. These bonds were refunded with the issuance of the 2012 bonds.	-	6,590,000
Note payable to the U.S. Department of Education (ED) at 3%. Principal and interest due semiannually. Thirty year note due June 2021. Note is secured by a deed of trust on Howard Payne Hall, Brannock Hall, Holt Hall, and McMurry Hall.	1,264,001	1,384,660
Interfund note payable to the Endowment Fund by the Current Fund with interest at Prime adjusted annually at June 30. Principal and interest due monthly. Thirty year note due December 2024. This note is unsecured.	103,700	192,445
Note payable to individual for the purchase of property at 3.5%. Principal and interest due annually. Two year note due January 2014. This note is unsecured.	93,919	-
Total long-term debt	10,226,620	8,167,105
Less interfund long-term debt eliminated in the Statement of Financial Position	103,700	192,445
Long-term debt to outside parties	$ 10,122,920	$ 7,974,660

The Series 2012 bonds were issued to refund the Series 2001 bonds in advance of their scheduled maturity dates. The refunding transaction was entered into to take advantage of lower interest rates offered by the bond ~~market and to obtain additional funds to finance the costs of certain student residential and related facilities.~~ Proceeds of the Series 2012 bonds in the amount of $6,472,000 were used to purchase investment securities that were placed into escrow to pay the principal and interest that will become due on the Series 2001 bonds prior to early redemption rates offered by the bonds and to advance refund the remaining outstanding bonds. Under generally accepted accounting principles, this qualifies as an extinguishment of debt and thus the securities placed in escrow and the remaining outstanding principal of the Series 2001 bonds are not reported in the University's Statement of Financial Position at June 30, 2012.

The University incurred costs of $225,863 as part of the issuance of the Series 2012 bonds. These costs are being amortized for the life of these 19 year bonds. Amortization expense on issuance costs was $2,972 for the year ended June 30, 2012, resulting in accumulated amortization of $2,972 at June 30, 2012. At the date of the refunding in 2012, unamortized issuance costs of the Series 2001 bonds were written off as required by generally accepted accounting principles. As a result, a loss of $222,366 on the bond refunding is reported in the Statement of Activities for the year ended June 30, 2012. Amortization expense on the Series 2001 bonds was $5,647 and $7,530 for the years ended June 30, 2012 and 2011, respectively. Accumulated amortization of the Series 2001 bonds was $75,300 at June 30, 2011.

The loan agreement for the Residential Facilities Revenue Bonds contains certain covenants including the maintenance of a minimum debt service coverage ratio, liquidity ratio and limitations on encumbrances of University property and on indebtedness. As of June 30, 2012, the University was in compliance with these covenants.

The University is required to maintain debt service reserves as part of the bond indenture. The reserves totaled $668,808 and $553,325 as of June 30, 2012 and 2011, respectively.

The future principal payments under the above obligations are:

Year Ending June 30	IDA Revenue Bonds	ED	Individual	Total Outside	Endowment	Total
2013	$ 305,000	$ 124,306	$ 50,000	$ 479,306	$ 31,630	$ 510,936
2014	360,000	128,064	43,919	531,983	32,658	564,641
2015	365,000	131,934	-	496,934	33,719	530,653
2016	375,000	135,922	-	510,922	5,693	516,615
2017	380,000	140,030	-	520,030	-	520,030
Subsequent periods	6,980,000	603,745	-	7,583,745	-	7,583,745
Totals	$ 8,765,000	$ 1,264,001	$ 93,919	$ 10,122,920	$ 103,700	$ 10,226,620

For purposes of presentation in the accompanying Statements of Activities, interest incurred and paid to outside parties on debt was allocated to various program and supporting services for the years ended June 30, as follows:

	2012	2011
Institutional support	$ 13,412	$ 14,580
Auxiliary enterprises	319,735	402,134
Total interest expense	$ 333,147	$ 416,714

9. NET ASSETS

Net assets were restricted for the following purposes:

	Temporarily Restricted 2012	Temporarily Restricted 2011
Expendable gifts for capital improvements	$ 559,003	$ 2,970,698
Expendable gifts for scholarships, educational and general purposes	663,951	9,229
Time restricted assets for which all other restrictions have been released	30,467	545,805
Contributions receivable from trusts	1,508,428	1,585,299
Gift annuities	28,313	32,780
Accumulated endowment earnings not yet appropriated for expenditure	5,925,913	7,716,888
Total net assets	$ 8,716,075	$ 12,860,699

	Permanently Restricted 2012	Permanently Restricted 2011
Contributions receivable from trusts	$ 104,437	$ 114,465
Gift annuities	84,144	109,632
Endowment corpus	23,740,908	23,028,635
Beneficial interest in funds held by others	379,567	391,990
Total net assets	$ 24,309,056	$ 23,644,722

10. NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the donors' stipulated purposes or by occurrence of other events specified by donors. As a result, transfers of temporarily restricted net assets to unrestricted net assets are displayed in the accompanying Statement of Activities and are summarized as follows for the years ended June 30, 2012 and 2011:

	2012	2011
Net assets released for operating activities:		
Payments received on pledges that were not restricted for capital purchases or endowment additions	$ 100,493	$ 261,531
Expenditures for scholarships and other general educational purposes from donor restricted funds that are not part of the endowment	99,166	126,355
Accumulated endowment earnings appropriated for expenditure	1,390,000	1,390,000
Total net assets released for operating activities	$ 1,589,659	$ 1,777,886
Net assets released for nonoperating activities:		
Capital expenditures from donor restricted funds that are not part of the endowment	$ 4,237,048	$ 207,027
Total net assets released for nonoperating activities	$ 4,237,048	$ 207,027

11. ENDOWMENT

The University's endowment consists of approximately 800 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

In August, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) replaced the Uniform Management of Institutional Funds Act (UMIFA) as the law in Missouri governing the management of donor-restricted endowment funds. The objective of UPMIFA is to provide stronger guidance for investment management and the expenditure decisions related to endowment funds. Unlike UMIFA, UPMIFA allows entities to spend from funds which have fallen below their historical dollar value provided prudent financial practices are maintained.

The Board of Trustees of the University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Pursuant to UPMIFA, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate from a donor-restricted endowment fund: duration and preservation of the endowment fund; purposes of the University and the endowment funds; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the University; and the investment policies of the University.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the University's interpretation and policies with respect to UPMIFA require be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are to be reported as part of unrestricted net assets. There were no such deficiencies as of June 30, 2012 and 2011.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 8.7% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University utilizes a spending rate approach to appropriate endowment earnings for operations. For the fiscal years ended June 30, 2012 and 2011, the Board of Trustees authorized withdrawal rates of 4.9% and 5.1%, respectively, of the endowment fund's trailing three years' average market value. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at least 1%, net of inflation, annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment Financial Information

The composition of the University's endowment by net asset classification as of June 30, 2012 and 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2012				
Donor-restricted endowment funds	$ -	$ 5,925,913	$ 23,740,908	$ 29,666,821
Board-designated endowment funds	119,610	-	-	119,610
Total endowment funds	$ 119,610	$ 5,925,913	$ 23,740,908	$ 29,786,431
2011				
Donor-restricted endowment funds	$ -	$ 7,716,888	$ 23,028,635	$ 30,745,523
Board-designated endowment funds	119,610	-	-	119,610
Total endowment funds	$ 119,610	$ 7,716,888	$ 23,028,635	$ 30,865,133

The following represents the changes in the University's endowment net assets for the years ended June 30, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	$ 119,610	$ 3,509,574	$ 22,912,011	$ 26,541,195
Investment return:				
Investment income, net	-	917,457	-	917,457
Net appreciation - realized and unrealized	-	4,679,857	-	4,679,857
Contributions	-	-	116,624	116,624
Appropriation for expenditure	-	(1,390,000)	-	(1,390,000)
Endowment net assets, June 30, 2011	119,610	7,716,888	23,028,635	30,865,133
Investment return:				
Investment income, net	-	652,219	-	652,219
Net depreciation - realized and unrealized	-	(1,053,194)	-	(1,053,194)
Contributions	-	-	712,273	712,273
Appropriation for expenditure	-	(1,390,000)	-	(1,390,000)
Endowment net assets, June 30, 2012	$ 119,610	$ 5,925,913	$ 23,740,908	$ 29,786,431

12. TUITION AND FEES

Tuition and fees for the years ended June 30 were as follows:

	2012	2011
Gross tuition and fees	$ 30,650,719	$ 29,200,931
Less financial aid awarded	(11,920,447)	(11,872,842)
Net tuition and fees	$ 18,730,272	$ 17,328,089

13. RETIREMENT PLAN

The University contributes to a plan established under Internal Revenue Code Section 403(b). The University contributes 5% of gross wages for all full-time employees with one full year of service. As of January 1, 2008, the University began contributing an additional 2% of gross wages for any full-time employees making voluntary personal contributions of 5%. The payments, which are immediately vested to the employees, were approximately $527,000 and $501,000 for the fiscal years 2012 and 2011, respectively.

14. OPERATING LEASES

Rental expense on non-cancelable operating leases with a term of more than one year were approximately $377,000 and $357,000 for the fiscal years ended June 30, 2012 and 2011, respectively. The leases are for various rental space, equipment, and automobiles used by the University.

Future minimum rental commitments under these leases are:

Year ending June 30,	Rental space	Equipment	Automobiles	Total
2013	$ 259,922	$ 74,594	$ 5,352	$ 339,868
2014	204,376	69,840	2,230	276,446
2015	160,961	41,943	-	202,904
2016	74,131	39,065	-	113,196
2017	48,195	4,379	-	52,574
	$ 747,585	$ 229,821	$ 7,582	$ 984,988

15. FAIR VALUE MEASUREMENTS

For assets and liabilities required to be reported at fair value, U.S. generally accepted accounting principles prescribes a framework for measuring fair value and financial statement disclosures about fair value measurements. A fair value hierarchy has been established that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity's (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy as prescribed by generally accepted accounting principles is as follows:

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at or within 90 days of the measurement date.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The University's assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and 2011, aggregated by the level in the fair value hierarchy within which those measurements fall, are as follows:

Description	2012 Total	Level 1	Level 2	Level 3
Common stock and equity securities	$ 23,495	$ 23,495	$ -	$ -
Equity mutual funds	17,366,697	17,366,697	-	-
Fixed income mutual funds	8,716,036	8,716,036	-	-
Alternative investments:				
Hedge fund	1,425,294	-	-	1,425,294
Private equity offshores fund	905,348	-	-	905,348
Certificates of deposit and money market funds	948,917	-	948,917	-
Total investments stated at fair value	$ 29,385,787	$ 26,106,228	$ 948,917	$ 2,330,642
Beneficial interest in funds held by others	$ 379,567	$ -	$ 379,567	$ -

Description	2011 Total	Level 1	Level 2	Level 3
Common stock and equity securities	$ 19,989	$ 19,989	$ -	$ -
Equity mutual funds	18,253,764	18,253,764	-	-
Fixed income mutual funds	9,039,680	9,039,680	-	-
Alternative investments:				
Hedge fund	1,393,791	-	-	1,393,791
Private equity offshores fund	665,245	-	-	665,245
Certificates of deposit and money market funds	849,254	-	849,254	-
Total investments stated at fair value	$ 30,221,723	$ 27,313,433	$ 849,254	$ 2,059,036
Beneficial interest in funds held by others	$ 391,990	$ -	$ 391,990	$ -

Level 1 classifications above consist of common stock, equity mutual funds and fixed income mutual funds that have readily determinable fair values based upon quoted prices in active markets.

Level 2 classifications above consist of certificates of deposit and money market funds; and beneficial interest in funds held by others that have fair values based on the fair value of assets held by a third-party trustee.

Level 3 classifications above consist of various alternative investments in limited partnerships where fair values are based on information provided by the administrators of each underlying fund or the general partner. Management also takes into consideration consultation with fund investment managers and, when available, annual audited financial information, to determine overall reasonableness of the recorded value. The fair value of such investments is determined using the net asset value (NAV) per share or the equivalent of NAV as a practical expedient. Investments which are redeemable at or near year-end at NAV, generally considered to be 90 days or less, are classified within level 2 of the hierarchy; otherwise they are classified within level 3. Because of the inherent uncertainty of these valuations, values may differ from the values that would have been used had an active market existed.

A reconciliation of the beginning and ending balance of the level 3 assets activity that is measured at fair value using unobservable inputs is as follows:

	2012	2011
Balance, beginning of year	$ 2,059,036	$ 1,648,056
Total realized and unrealized gains (losses) included in change in net assets	271,606	108,708
Net additions, purchases, sales, and maturities	-	302,272
Balance, end of year	$ 2,330,642	$ 2,059,036

The University's level 3 investments include an interest in a hedge fund limited partnership. The investment objective of the fund is to achieve substantial capital appreciation with limited volatility through investments in a broadly diversified portfolio of managers and strategies. The underlying investments include debt and equity securities in U.S. and foreign corporations and governments, partnership interests, commodity interests, and various forms of derivatives. The class of shares held by the University may be redeemed upon at least 100 days' written notice as of the last day of any calendar year. The University may not redeem less than all of its shares if a partial redemption would leave the remaining net asset value at less than $1,000,000, although the fund may waive this limitation.

At June 30, 2012, the University had the following unfunded investment commitments to limited partnerships included in level 3 investments:

Hedge fund	$ -
Private equity offshores fund	635,108
Private equity natural resources fund	40,000
Private equity tri-guard fund	450,000
	$ 1,125,108

16. INSURANCE POOL

The University is insured as a member of the University & University Risk Management Association (CURMA) for general business risks and the University & University Trust Association (CUTA) for workers' compensation. Through these memberships, the University may receive lower insurance premiums in exchange for shared risk in each pool's experience and performance. Subject to certain conditions, the future premiums may be adjusted for claims in excess of pool reserves or for reserves in excess of claims. The CURMA pool maintains excess liability and buffer excess liability insurance policies for annual claims greater than $1,000,000 and $100,000, respectively. The University has not recorded an asset or liability for any estimate of premium stabilization reserve amounts allocable to the University by CURMA or CUTA because such amounts are not known to be material to the University's financial statements.

17. RELATED PARTY TRANSACTIONS

A portion of the University's cash, cash equivalents, and investments are with a financial institution in which members of the Board of Trustees have ownership interests or hold key positions. These arrangements are conducted under the University's conflict of interest policy.