

**BRADLEY UNIVERSITY**  
Peoria, Illinois

**FINANCIAL STATEMENTS**  
May 31, 2010 and 2009



**Clifton  
Gunderson LLP**  
Certified Public Accountants & Consultants

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**BRADLEY UNIVERSITY**

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## Independent Auditor's Report

Board of Trustees  
Bradley University  
Peoria, Illinois

We have audited the accompanying statements of financial position of Bradley University as of May 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bradley University as of May 31, 2010 and 2009, 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.

*Clifton Gunderson LLP*

Peoria, Illinois  
September 28, 2010

**BRADLEY UNIVERSITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**May 31, 2010 and 2009**  
**(In Thousands of Dollars)**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,442	\$ 30,048
Deposit with trustee, Series 2008, 2007 and 2002 bonds (Note 8)	2	15,803
Accounts receivable:		
Tuition and fees, net of \$200 and \$180 allowance in 2010 and 2009, respectively	1,028	1,271
Government grants and appropriations	807	1,027
Other	1,173	1,296
Student loans, net of \$350 allowance in 2010 and 2009	6,080	5,820
Deferred charges and other	2,329	2,461
Annuities receivable	13	10
Contributions receivable, net of \$4,510 and \$3,634 allowance in 2010 and 2009, respectively (Note 3)	16,834	21,364
Investments (Note 2)	214,280	182,111
Property, plant, and equipment, net (Note 5)	<u>280,698</u>	<u>247,161</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 536,686</u></b>	<b><u>\$ 508,372</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accrued wages and related taxes	\$ 10,148	\$ 9,616
Accounts payable and accrued expenses	11,744	13,239
Student deposits	1,396	1,596
Deferred revenue	1,677	1,909
Reserve for annuities (Note 7)	4,639	4,764
Refundable government loan fund	4,113	4,116
Postretirement benefits other than pensions (Note 15)	19,078	17,930
Notes payable	1,627	1,798
Capital lease obligation (Note 9)	2,031	2,597
Swap contract (Note 11)	4,327	3,922
Bonds payable, net (Note 8)	<u>122,704</u>	<u>124,529</u>
Total liabilities	<u>183,484</u>	<u>186,016</u>
<b>NET ASSETS</b>		
Unrestricted	257,848	233,431
Temporarily restricted (Note 12)	40,089	37,095
Permanently restricted (Note 12)	<u>55,265</u>	<u>51,830</u>
Total net assets	<u>353,202</u>	<u>322,356</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 536,686</u></b>	<b><u>\$ 508,372</u></b>

The accompanying notes are an integral part of the financial statements.

**BRADLEY UNIVERSITY**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended May 31, 2010 and 2009**  
(In Thousands of Dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES AND OTHER ADDITIONS</b>					
Tuition and fees	\$ 128,149	\$ -	\$ -	\$ 128,149	\$ 122,356
Tuition allowance	(40,981)	-	-	(40,981)	(38,772)
Contributions	1,209	7,509	3,029	11,747	13,035
Government grants and appropriations	3,989	-	-	3,989	3,696
Contracts	719	-	-	719	1,537
Investment return designated for current operations (Note 2)	8,962	29	60	9,051	10,060
Auxiliary	23,294	-	-	23,294	22,757
Other income	5,827	-	1	5,828	5,168
Net assets released from restrictions (Note 12)	9,581	(9,581)	-	-	-
Total operating revenue and other additions	<u>140,749</u>	<u>(2,043)</u>	<u>3,090</u>	<u>141,796</u>	<u>139,837</u>
<b>OPERATING EXPENDITURES</b>					
Instructional and research	49,130	-	-	49,130	47,092
Operation and maintenance of plant	9,344	-	-	9,344	9,813
General institutional	20,538	-	-	20,538	21,131
Student services	8,091	-	-	8,091	7,560
General administrative	5,932	-	-	5,932	6,733
Library	2,561	-	-	2,561	2,623
Public service, information, and fundraising	3,233	-	-	3,233	3,081
Auxiliary	20,852	-	-	20,852	21,023
Interest on indebtedness	2,908	-	-	2,908	2,114
Depreciation	9,192	-	-	9,192	8,645
Total operating expenditures	<u>131,781</u>	<u>-</u>	<u>-</u>	<u>131,781</u>	<u>129,815</u>
Change in net assets from operating activities	<u>8,968</u>	<u>(2,043)</u>	<u>3,090</u>	<u>10,015</u>	<u>10,022</u>
<b>NONOPERATING REVENUE AND EXPENDITURES</b>					
Net appreciation (depreciation) on investments (Note 2)	21,027	251	370	21,648	(70,003)
Swap contract loss (Note 11)	(405)	-	-	(405)	(3,689)
Change in donor restrictions	(163)	65	98	-	-
Changes in split interest arrangements	(94)	(195)	(123)	(412)	(109)
Change in net assets from nonoperating activities	<u>20,365</u>	<u>121</u>	<u>345</u>	<u>20,831</u>	<u>(73,801)</u>
Changes in net assets before effect of adoption of UPMIFA	29,333	(1,922)	3,435	30,846	(63,779)
<b>EFFECT OF ADOPTION OF UPMIFA</b>	<u>(4,916)</u>	<u>4,916</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGES IN NET ASSETS</b>	24,417	2,994	3,435	30,846	(63,779)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>233,431</u>	<u>37,095</u>	<u>51,830</u>	<u>322,356</u>	<u>386,135</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 257,848</u>	<u>\$ 40,089</u>	<u>\$ 55,265</u>	<u>\$ 353,202</u>	<u>\$ 322,356</u>

The accompanying notes are an integral part of the financial statements.

**BRADLEY UNIVERSITY**  
**STATEMENTS OF ACTIVITIES**  
**Year Ended May 31, 2009**  
(In Thousands of Dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2009</u>
<b>OPERATING REVENUES AND OTHER ADDITIONS</b>				
Tuition and fees	\$ 122,356	\$ -	\$ -	\$ 122,356
Tuition allowance	(38,772)	-	-	(38,772)
Contributions	2,036	8,530	2,469	13,035
Government grants and appropriations	3,696	-	-	3,696
Contracts	1,537	-	-	1,537
Investment return designated for current operations (Note 2)	9,950	28	82	10,060
Auxiliary	22,757	-	-	22,757
Other income	5,162	-	6	5,168
Net assets released from restrictions (Note 12)	13,035	(13,035)	-	-
Total operating revenue and other additions	<u>141,757</u>	<u>(4,477)</u>	<u>2,557</u>	<u>139,837</u>
<b>OPERATING EXPENDITURES</b>				
Instructional and research	47,092	-	-	47,092
Operation and maintenance of plant	9,813	-	-	9,813
General institutional	21,131	-	-	21,131
Student services	7,560	-	-	7,560
General administrative	6,733	-	-	6,733
Library	2,623	-	-	2,623
Public service, information, and fundraising	3,081	-	-	3,081
Auxiliary	21,023	-	-	21,023
Interest on indebtedness	2,114	-	-	2,114
Depreciation	8,645	-	-	8,645
Total operating expenditures	<u>129,815</u>	<u>-</u>	<u>-</u>	<u>129,815</u>
Change in net assets from operating activities	<u>11,942</u>	<u>(4,477)</u>	<u>2,557</u>	<u>10,022</u>
<b>NONOPERATING REVENUE AND EXPENDITURES</b>				
Net depreciation on investments (Note 2)	(69,125)	(158)	(720)	(70,003)
Swap contract loss (Note 11)	(3,689)	-	-	(3,689)
Change in donor restrictions	(316)	208	108	-
Changes in split interest arrangements	(142)	(7)	40	(109)
Change in net assets from nonoperating activities	<u>(73,272)</u>	<u>43</u>	<u>(572)</u>	<u>(73,801)</u>
<b>TOTAL CHANGES IN NET ASSETS</b>	(61,330)	(4,434)	1,985	(63,779)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>294,761</u>	<u>41,529</u>	<u>49,845</u>	<u>386,135</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 233,431</u>	<u>\$ 37,095</u>	<u>\$ 51,830</u>	<u>\$ 322,356</u>

The accompanying notes are an integral part of the financial statements.

**BRADLEY UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended May 31, 2010 and 2009**  
**(In Thousands of Dollars)**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 30,846	\$ (63,779)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	9,192	8,645
Provision for uncollectible contributions and accounts receivable	896	1,972
Net accretion of premiums and discounts on bonds payable and bond issuance costs	(50)	(54)
Net realized and unrealized (gains) losses on investments	(28,176)	63,973
Swap contract loss	405	2,793
Effects of changes in operating assets and liabilities:		
Accounts receivable	566	(352)
Deferred charges and other	37	772
Annuities receivable	(3)	822
Contributions receivable	3,654	(658)
Accounts payable, accrued expenses, and accrued wages	(963)	(965)
Student deposits	(200)	26
Deferred revenue	(232)	98
Reserve for annuities	(125)	(464)
Postretirement benefits	1,148	2,619
Contributions restricted for long-term investment	(3,125)	(2,463)
Interest and dividends restricted for long-term investment	(101)	(125)
	<u>13,769</u>	<u>12,860</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	7,856	10,484
Purchase of investments	(11,849)	(2,199)
Proceeds from sale of property and equipment	-	13
Purchase of property and equipment	(42,729)	(44,269)
Withdrawal of deposit with trustee	20,704	42,303
Deposit with trustee	(4,903)	(7,162)
	<u>(30,921)</u>	<u>(830)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for long-term investment	3,125	2,463
Interest and dividends restricted for long-term investment	101	125
Payments on notes payable	(171)	(256)
Payments on bonds payable	(1,680)	(1,605)
Decrease in refundable government loan funds, net	(263)	(228)
Payments on capital lease	(566)	(382)
	<u>546</u>	<u>117</u>
Net cash provided by financing activities		

**BRADLEY UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended May 31, 2010 and 2009**  
**(In Thousands of Dollars)**

	<u>2010</u>	<u>2009</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ (16,606)	\$ 12,147
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>30,048</u>	<u>17,901</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 13,442</u>	<u>\$ 30,048</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 4,365</u>	<u>\$ 4,147</u>

**NONCASH INVESTING AND FINANCING ACTIVITIES**

During the year ended May 31, 2009, the University acquired a building and land which was through a capital lease in the amount of \$2,979.

The accompanying notes are an integral part of the financial statements.

**BRADLEY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2010 and 2009**  
**(In Thousands of Dollars Unless Otherwise Indicated)**

**NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Operations**

Bradley University (the "University") provides educational opportunities to qualified students from throughout the world.

**Basis of Presentation**

The University prepares its financial statements in accordance with Generally Accepted Accounting Principles, which requires classification of net assets and revenues, expenses, gains, and losses based on the absence or existence of donor-imposed restrictions into three categories: unrestricted net assets which have no donor-imposed restrictions and are available for any purpose consistent with the University's mission; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future and normally fund specific expenditures of an operating or capital nature, such as life income funds, student loan funds, and pledges; and permanently restricted net assets which have donor-imposed restrictions that do not expire and are normally restricted to long-term investment with income earned and appreciation available for specific or general University purposes, such as life income funds, endowment funds, and pledges.

The University's financial statements are prepared on the accrual basis of accounting.

**Cash and Cash Equivalents**

The University defines cash equivalents as securities with original maturities of 90 days or less.

**Revenue Recognition**

Revenues from tuition and fees are reported in the fiscal year in which educational programs are conducted. Summer session tuition and fees billed in the current fiscal year for future years' programs are reported as deferred revenue and/or student deposits.

**Auxiliary Enterprises**

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of dining halls, residence halls, and intercollegiate athletics. Auxiliary enterprise revenues and fully costed expenses are reported as changes in unrestricted net assets.

**BRADLEY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2010 and 2009**  
**(In Thousands of Dollars Unless Otherwise Indicated)**

**NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Investments and Investment Income**

Investments in equity securities with readily determinable fair values and all investments in debt securities are presented at fair value. Investments in farms are stated at appraised value while other real estate investments are stated at acquisition cost or, for gifts, at fair value on the date of receipt. The net realized and unrealized appreciation or depreciation in the fair value of investments is reflected in the statements of activities.

Endowment funds are accounted for with a unitized accounting system. Individual funds within the investment pool are assigned units based on their proportionate share of the investments in the pool. Additions and subtractions are assigned units based on the unit value at the time of the additions or subtractions. Net appreciation on endowment funds and all other funds is classified in the accompanying financial statements based on restrictions by the donor or by law.

An individual endowment fund is considered to be underwater if the fund is permanently restricted and the fair value has decreased below its historic dollar value. Due to the recent market conditions, the University has approximately 150 of 605 individual endowment funds whose market values are \$1,474 in total under their historical cost that are considered to be "underwater." Spending associated with endowment funds is governed by the Uniform Prudent Management of Institutional Funds Act and places stipulations upon spending from underwater endowment funds.

Purchases and sales of investment securities are recorded on the trade-date basis. Dividends are recorded on the ex-dividend date and interest is recorded as earned.

**Bond Issuance Costs**

Bond issuance costs of \$1,545 and \$1,639 are included in deferred charges on the statements of financial position at May 31, 2010 and 2009, respectively. These deferred charges are being amortized using both the straight-line and interest methods over the term of the related debt. At May 31, 2010 and 2009, accumulated amortization on the bond issuance costs was \$592 and \$498, respectively.

**BRADLEY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2010 and 2009**  
**(In Thousands of Dollars Unless Otherwise Indicated)**

**NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Property, Plant, and Equipment**

Land, buildings, and equipment are stated at acquisition cost less accumulated depreciation. Donations of property are recorded at fair market value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of each asset type.

**Impairment of Long-Lived Assets**

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

**Income Taxes**

The University is exempt from federal and state income taxes under the applicable U.S. and Illinois internal revenue codes for related income. No provision has been made in the accompanying financial statements as the University has no significant unrelated business income.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

At May 31, 2010 and 2009, reserves have been established for uncollectible accounts, student loans, and contributions receivable. These reserves have been estimated based on historical collection and allowance practices, as well as an evaluation by management of current trends.

Contributions receivable, annuities receivable, and the reserve for annuities are based on estimated fair values using discount rates. The University believes the methods and assumptions used are appropriate.

**BRADLEY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2010 and 2009**  
**(In Thousands of Dollars Unless Otherwise Indicated)**

**NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Use of Estimates in the Preparation of Financial Statements** (Continued)

The liability for postretirement benefits is based on actuarial studies. The University believes the methods and assumptions used in computing this liability are appropriate.

**Change in Donor Restrictions**

A donor may change their imposed restrictions subsequent to the initial contribution. When such a change occurs, the net asset balance of the contribution is reclassified to reflect the current status of the restriction, if any.

**New Accounting Standards**

During the year ended May 31, 2010, the University adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires that the amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations or (b) that in the absence of such stipulations, the University's governing board determines what must be retained permanently consistent with the relevant law. The adoption required a reclassification of \$4,916 from unrestricted net assets to temporarily restricted net assets to reflect the amount of unspent appropriated funds at May 31, 2010.

On June 1, 2009, the University adopted the Financial Accounting Standards Board's new accounting requirements for accounting for uncertain tax positions. Under these new requirements, a tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The University determined that it was not required to record a liability for unrecognized tax benefits as a result of implementing the new requirements.

**Subsequent Events**

The University evaluated subsequent events through September 28, 2010, the date the financial statements were available to be issued.

**BRADLEY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2010 and 2009**  
(In Thousands of Dollars Unless Otherwise Indicated)

**NOTE 2 - INVESTMENTS**

A summary of the cost and fair values of investments at May 31, 2010 and 2009 follows:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term funds held for investment	\$ 10,009	\$ 10,009	\$ 5,464	\$ 5,464
Equities and equity mutual funds	114,165	124,264	97,009	93,113
Alternative investments	36,404	29,564	37,320	29,620
Fixed income assets	37,367	41,485	47,053	46,067
Mortgages and notes	575	575	601	601
Real estate and farms	1,784	5,387	1,537	5,074
Other investments	<u>3,043</u>	<u>2,996</u>	<u>2,224</u>	<u>2,172</u>
	<u>\$ 203,347</u>	<u>\$ 214,280</u>	<u>\$ 191,208</u>	<u>\$ 182,111</u>

Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect the amounts reported in the statements of financial position and the statements of activities. The timing of the reallocation of investments as of May 31, 2010 and 2009 caused \$10,009 and \$5,464, respectively, to be held in short-term funds held for investment.

Investment return for the years ended May 31, 2010 and 2009 is comprised of the following:

	<u>2010</u>	<u>2009</u>
Investment income	\$ 2,523	\$ 4,030
Net realized and unrealized gains (losses) on investments reported at fair value	<u>28,176</u>	<u>(63,973)</u>
Total return on investments	30,699	(59,943)
Investment return designated for current operations	<u>(9,051)</u>	<u>(10,060)</u>
<b>Investment return in excess (deficiency) of amount designated for current operations</b>	<u>\$ 21,648</u>	<u>\$ (70,003)</u>

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**NOTE 2 - INVESTMENTS (CONTINUED)**

**Endowments**

Bradley University endowments consist of 605 funds established to support a variety of purposes at the University. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board of Trustees (Board) to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (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. Consequently, the University classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University's Board. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

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**NOTE 2 - INVESTMENTS (CONTINUED)**

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 the programs supported by the endowments. The endowment assets are invested in a manner that is intended to produce long-term investment gain with a tolerance for managed risk.

Spending Policy

The University has a policy of appropriating for distribution each year up to five percent of the endowment fund's average appreciation over a moving three-year average.

In establishing this policy, the University considered the long-term expected returns on its endowment investments. Accordingly, over the long term, the University expects the current spending policy will allow its endowment to retain or enhance the original fair value of the gift.

Strategies Employed for Achieving Objectives

The University relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends).

2010 endowment net asset composition by type of fund as of May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 25,148	\$ 55,265	\$ 80,413
Board designated endowment funds	<u>160,662</u>	<u>-</u>	<u>-</u>	<u>160,662</u>
<b>Total funds</b>	<u>\$ 160,662</u>	<u>\$ 25,148</u>	<u>\$ 55,265</u>	<u>\$ 241,075</u>

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**NOTE 2 - INVESTMENTS (CONTINUED)**

Changes in endowment net assets for the year ended May 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 141,339	\$ 25,030	\$ 51,830	\$ 218,199
Net asset reclassification based on change in law	<u>(4,916)</u>	<u>4,916</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	<u>136,423</u>	<u>29,946</u>	<u>51,830</u>	<u>218,199</u>
Investment return:				
Investment income	447	39	101	587
Net appreciation	<u>26,803</u>	<u>225</u>	<u>207</u>	<u>27,235</u>
Total	<u>27,250</u>	<u>264</u>	<u>308</u>	<u>27,822</u>
Contributions	796	716	3,029	4,541
Other	275	-	98	373
Appropriation of endowment assets for expenditure	<u>(4,082)</u>	<u>(5,778)</u>	<u>-</u>	<u>(9,860)</u>
<b>Net assets, end of year</b>	<u><u>\$ 160,662</u></u>	<u><u>\$ 25,148</u></u>	<u><u>\$ 55,265</u></u>	<u><u>\$ 241,075</u></u>

2009 endowment net asset composition by type of fund as of May 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 25,030	\$ 51,830	\$ 76,860
Board designated endowment funds	<u>141,339</u>	<u>-</u>	<u>-</u>	<u>141,339</u>
<b>Total funds</b>	<u><u>\$ 141,339</u></u>	<u><u>\$ 25,030</u></u>	<u><u>\$ 51,830</u></u>	<u><u>\$ 218,199</u></u>

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**NOTE 2 - INVESTMENTS (CONTINUED)**

Changes in endowment net assets for the year ended May 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 205,619	\$ 27,544	\$ 49,845	\$ 283,008
Investment return:				
Investment income	203	38	125	366
Net appreciation (depreciation)	<u>(62,421)</u>	<u>130</u>	<u>(724)</u>	<u>(63,015)</u>
Total	<u>(62,218)</u>	<u>168</u>	<u>(599)</u>	<u>(62,649)</u>
Contributions	1,354	136	2,469	3,959
Other	264	-	115	379
Appropriation of endowment assets for expenditure	<u>(3,680)</u>	<u>(2,818)</u>	<u>-</u>	<u>(6,498)</u>
<b>Net assets, end of year</b>	<u>\$ 141,339</u>	<u>\$ 25,030</u>	<u>\$ 51,830</u>	<u>\$ 218,199</u>

**NOTE 3 - CONTRIBUTIONS**

Unconditional contributions receivable, less an appropriate reserve, are recorded at their estimated fair value with amounts due later than one year recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. The University utilized a discount rate of 3.41 percent in 2010 and 2.44 percent in 2009 to arrive at this present value. The expiration of a donor-imposed restriction on a contribution or endowment is recognized in the period in which the restriction expires, and the related resources are reclassified to unrestricted net assets at that time. Conditional promises to give are not included as contributions until the conditions are substantially met.

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**NOTE 3 - CONTRIBUTIONS (CONTINUED)**

Unconditional contributions receivable at May 31, 2010 and 2009 are as follows:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Contributions due in:		
Less than one year	\$ 7,591	\$ 9,576
One year to five years	14,570	16,547
Six years or greater	15	160
Less discount to present value and allowance	<u>(5,342)</u>	<u>(4,919)</u>
<b>Total</b>	<u><b>\$ 16,834</b></u>	<u><b>\$ 21,364</b></u>

Contributions receivable are distributed between net asset classifications as follows at May 31, 2010 and 2009:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Temporarily restricted	\$ 16,290	\$ 20,723
Permanently restricted	<u>544</u>	<u>641</u>
<b>Total</b>	<u><b>\$ 16,834</b></u>	<u><b>\$ 21,364</b></u>

**NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally Accepted Accounting Principles establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

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**NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Level 2           Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3           Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at May 31, 2010 and 2009.

*Equities, equity mutual funds, and short-term funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Fixed income assets:* Valued at the closing price reported on the active market on which the individual securities are traded for those classified in Level 1. Those classified in Level 2 are valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type.

*Alternative investments:* Valued at information obtained from manager of the various funds.

*Mortgages and notes:* Valued at the cost, which approximates fair value.

*Real estate and farms:* Valued at the current appraised value.

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**NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

*Other investments:* Valued at the carrying amount, which approximates fair value.

*Interest rate swap agreement:* Valued by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current creditworthiness of the respective counterparties.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the University's assets and liabilities at fair value as of May 31, 2010 and 2009:

	<u>Assets at Fair Value as of May 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term funds	\$ 10,009	\$ -	\$ -	\$ 10,009
Equities and equity mutual funds	119,259	5,005	-	124,264
Fixed income assets	33,467	8,018	-	41,485
Alternative investments:				
Venture capital	-	-	13,204	
Hedge funds	-	-	10,270	
Opportunistic funds	-	-	6,090	
Total alternative investments				29,564
Mortgages and notes	-	-	575	575
Real estate and farms	-	5,387	-	5,387
Other investments	<u>935</u>	<u>2,061</u>	<u>-</u>	<u>2,996</u>
<b>Total assets at fair value</b>	<u>\$ 163,670</u>	<u>\$ 20,471</u>	<u>\$ 30,139</u>	<u>\$ 214,280</u>

	<u>Liabilities at Fair Value as of May 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 4,327</u>	<u>\$ -</u>	<u>\$ 4,327</u>

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**NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

	<u>Assets at Fair Value as of May 31, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term funds	\$ 5,464	\$ -	\$ -	\$ 5,464
Equities and equity mutual funds	98,638	-	-	98,638
Fixed income assets	38,750	7,317	-	46,067
Alternative investments:				
Venture capital	-	-	10,247	
Hedge funds	-	-	8,748	
Opportunistic funds	-	-	5,100	
Total alternative investments				24,095
Mortgages and notes	-	-	601	601
Real estate and farms	-	5,074	-	5,074
Other investments	-	<u>2,172</u>	-	<u>2,172</u>
<b>Total assets at fair value</b>	<u>\$ 142,852</u>	<u>\$ 14,563</u>	<u>\$ 24,696</u>	<u>\$ 182,111</u>

	<u>Liabilities at Fair Value as of May 31, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 3,922</u>	<u>\$ -</u>	<u>\$ 3,922</u>

The following tables set forth a summary of changes in fair value of the University's Level 3 assets and liabilities for the years ended May 31, 2010 and 2009:

	<u>Level 3 Assets</u> <u>Year Ended May 31, 2010</u>	<u>Level 3 Assets</u> <u>Year Ended May 31, 2009</u>
Balance, beginning of year	\$ 24,696	\$ 22,758
Realized gains (losses)	3,329	(847)
Unrealized gains (losses)	860	(3,728)
Purchases, return on capital (net)	<u>1,254</u>	<u>6,513</u>
<b>Balance, end of year</b>	<u>\$ 30,139</u>	<u>\$ 24,696</u>

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**NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following methods were used to estimate the fair value of the following financial instruments:

*Contributions receivable:* The fair value is estimated based upon discounted rates.

*Reserve for annuities:* The fair value is estimated based upon discounted rates.

For all other financial instruments, the fair values approximate the carrying values in the accompanying financial statements.

**NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT, NET**

	<b>Depreciable Life</b>	<b>May 31,</b>	
		<b><u>2010</u></b>	<b><u>2009</u></b>
Educational plant:			
Land		\$ 24,108	\$ 24,148
Buildings	20-60	170,605	168,613
Equipment	3-10	66,096	65,639
Improvement other than buildings	20	18,747	12,865
Construction in progress		58,423	27,519
Accumulated depreciation		<u>(103,986)</u>	<u>(98,173)</u>
		<u>233,993</u>	<u>200,611</u>

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**NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT, NET (CONTINUED)**

	Depreciable <u>Life</u>	<u>May 31,</u>	
		<u>2010</u>	<u>2009</u>
Residential halls:			
Buildings	20-60	\$ 57,499	\$ 55,457
Equipment	3-10	2,249	1,886
Construction in progress		117	487
Accumulated depreciation		<u>(18,154)</u>	<u>(16,410)</u>
		<u>41,711</u>	<u>41,420</u>
Fraternity and sorority housing	20-60	4,898	4,891
Rental property	20-30	1,559	1,559
Accumulated depreciation		<u>(1,463)</u>	<u>(1,320)</u>
		<u>4,994</u>	<u>5,130</u>
		<u>\$ 280,698</u>	<u>\$ 247,161</u>

The University follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. Interest of \$1,311 and \$1,812 was capitalized during the years ended May 31, 2010 and 2009, respectively.

**NOTE 6 - LINE OF CREDIT ARRANGEMENTS**

The University has formal line of credit arrangements that permit borrowing up to \$5,000 on an unsecured basis at the LIBOR rate plus 125 basis points. The arrangements require maintenance of compensating balances aggregating \$250. The University had no borrowings under these arrangements as of May 31, 2010 and 2009.

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**NOTE 7 - RESERVE FOR ANNUITIES**

Several donors have entered into split-interest agreements with the University. These agreements are in the form of charitable gift annuities, charitable remainder annuity trusts, charitable remainder unitrusts, and life income funds. The assets held in the trusts, which approximate \$7,047 and \$6,756 at May 31, 2010 and 2009, respectively, are reported at fair value as investments in the statements of financial position. The annuities payable to beneficiaries resulting from these agreements are reported as a liability at the present value of the estimated future payments to be distributed over the beneficiaries' lives. The University calculates the present value of these payments through the use of discount rates (risk-free interest rates, which are 120 percent of the mid-term Applicable Federal Rate) and mortality tables (IRS Publication 590 expectancy tables). The University utilized discount rates based upon the applicable year in which the split-interest agreements were initiated within these calculations. For agreements initiated in the years ended May 31, 2010 and 2009, the University used discount rates based upon industry standards as established by the American Council on Gift Annuities. The University used discount rates ranging from 5.6 to 7.7 percent for the year ended May 31, 2010 and a discount rate of 8.6 percent for the year ended May 31, 2009.

**NOTE 8 - BONDS PAYABLE, NET**

The University's bonds payable consist of the following at May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Bonds payable:		
Series 1993B Revenue Refunding Bonds, 4.3 to 5.25 percent, due May 1, 2012 (A)	\$ 1,240	\$ 1,815
Series 1996 Revenue Bonds, 3.97 percent, due November 1, 2011 (B) (E)	680	1,110
Series 2007A Revenue Bonds, 4.0 to 5.0 percent, due August 1, 2034 (C)	54,775	55,450
Series 2008A, Variable Rate Demand Revenue Refunding Bonds, due April 1, 2033 (D)	38,385	38,385
Series 2008B, Variable Rate Demand Revenue Refunding Bonds, due April 1, 2038 (D)	<u>25,390</u>	<u>25,390</u>
	120,470	122,150
Less bonds discounts	(165)	(177)
Plus bond premium	<u>2,399</u>	<u>2,556</u>
	<u>\$ 122,704</u>	<u>\$ 124,529</u>

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**NOTE 8 - BONDS PAYABLE, NET (CONTINUED)**

- (A) Pursuant to a Security Agreement and Pledge dated December 1, 1993, the University issued its Secured Note Series 1993B in the principal amount of \$6,600 to provide funds to retire at a future date all of the Illinois Educational Facilities Authority's (the "IEFA") outstanding Variable Rate Revenue Bonds, Series 1991. The IEFA purchased the Note through the sale of revenue refunding bonds. The agreement provided for annual principal payments ranging in varying amounts from \$345 in 1999 to \$635 in 2012 and interest payments are semi-annual. Interest rates are variable on \$3,225 of the bonds ranging from 4.3 percent in 1999 to 5.0 percent in 2006. The balance of \$1,240 is 5.25 percent Term Bonds due May 1, 2012.
- (B) Pursuant to a Security Agreement dated December 1, 1996 between the University and the County of Peoria, Illinois, the University issued its Secured Note Series 1996 in the principal amount of \$5,000 to finance the construction of a parking garage. The County purchased the Note through the sale of revenue bonds issued under and secured by the Trust Indenture dated December 1, 1996 between the County and National City Bank, the trustee. The agreement provides for semi-annual principal payments ranging in the amount of \$115 in 1997 to \$230 in 2011.
- (C) Pursuant to a Trust Indenture dated April 1, 2007 between the University and the Illinois Finance Authority (the "Authority"), the University issued a Promissory Note, Series 2007 in the principal amount of \$81,100, issued under and secured by the Loan Agreement to (1) finance a portion of the costs of the acquisition, construction, renovation, improving, and equipping of certain facilities, (2) refund certain bonds heretofore issued by the Authority for the benefit of the Borrower, and (3) pay certain of the costs relating to the issuance of the Series 2007 Bonds. The Authority issued bonds in two series known as the "Illinois Finance Authority Revenue Bonds (Bradley University Projects) Series 2007A" (the "Series 2007A Bonds") and the "Illinois Finance Authority Variable Rate Demand Revenue Bonds (Bradley University Projects) Series 2007B" (the "Series 2007B Bonds" and with the Series 2007A Bonds, the "Bonds"). A premium of \$2,903 was received upon issuance of the Series 2007 Bonds. The agreement requires annual principal payments ranging in amounts from \$650 to \$6,090 through 2034 for the Series 2007A Bonds. The Series 2007B Bonds which were outstanding in the aggregate principal amount of \$25,000 were redeemed on March 25, 2008 with proceeds from the Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds Series 2008B. The Bond Agreement requires a bond insurance policy.

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**NOTE 8 - BONDS PAYABLE, NET (CONTINUED)**

- (D) Pursuant to Trust Indentures dated March 1, 2008 between the University and the Illinois Finance Authority (the "Authority"), the University issued Promissory Notes, which collectively comprised the Series 2008 Bonds. The Authority issued two series known as the "Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds (Bradley University) Series 2008A" ("the Series 2008A Bonds") in the principal amount of \$38,385 maturing on April 1, 2033 and the "Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds (Bradley University) Series 2008B" ("the Series 2008B Bonds") in the principal amount of \$25,390 maturing April 1, 2038.

The Series 2008A Bonds proceeds were used by the University to refund all Illinois Development Finance Authority Variable Rate Demand Revenue Bonds (Bradley University Projects) Series 2002 with an outstanding principal amount of \$37,800 and paid certain expenses incurred in connection with the issuance of the Series 2008A Bonds and the refunding of the Refunded Bonds.

The Series 2008B Bonds proceeds were used by the University to refund all Illinois Finance Authority Variable Rate Demand Revenue Bonds (Bradley University Projects) Series 2007B with an outstanding principal amount of \$25,000 and paid certain expenses incurred in connection with the issuance of the Series 2008B Bonds and the refunding of the Refunded Bonds.

The Series 2008A Bonds are secured with an irrevocable letter of credit in an amount sufficient to pay the principal or purchase price of the Series 2008A Bonds plus an amount up to 34 days of interest on the Series 2008A Bonds computed at an assumed maximum rate of 10 percent per annum and expiring on April 5, 2013 unless extended or terminated.

The Series 2008B Bonds are secured with an irrevocable letter of credit in an amount sufficient to pay the principal or purchase price of the Series 2008B Bonds plus an amount up to 34 days of interest on the Series 2008B Bonds computed at an assumed maximum rate of 10 percent per annum and expiring on April 5, 2013 unless extended or terminated.

- (E) As of June 30, 2004, US Bank acquired the corporate trust bond administration business of National City Bank. US Bank has assumed the duties of National City Bank regarding the University's 1996 issue.

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**NOTE 8 - BONDS PAYABLE, NET (CONTINUED)**

Scheduled principal payments on bonds payable are:

2011	\$ 1,760
2012	1,600
2013	1,925
2014	2,030
2015	2,135
2016 and after	<u>111,020</u>
	<u>\$ 120,470</u>

Certain bonds payable contain financial covenants pertaining to unrestricted revenues, expendable fund balances, and unrestricted cash and investments. The University was not in compliance with the expendable fund balance covenant at May 31, 2010, relating to the 1993B bonds, and has obtained a waiver from the bank relating to this requirement.

**NOTE 9 - CAPITAL LEASE OBLIGATION**

The University is leasing a building under a capitalized lease that expires in December 2027. The cost of this building is \$3,576. Accumulated depreciation in the statements of financial position included \$159 relating to this lease.

Future minimum lease payments under the capital lease as of May 31, 2010 are as follows:

Years ending May 31:	
2011	\$ 407
2012	131
2013	129
2014	127
2015	125
2016 and thereafter	<u>1,414</u>
Total minimum lease payments	2,333
Less amount representing interest	<u>302</u>
<b>Present value of minimum lease payments</b>	<u><b>\$ 2,031</b></u>

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**NOTE 10 - OPERATING LEASES**

The University conducts activities from facilities that are leased under ten-year noncancelable operating leases expiring in 2020. The leases contain renewal options for two additional five-year periods. Future minimum rental payments due under the leases are as follows:

	<u>Amount</u>
Year ending May 31,	
2011	\$ 206
2012	206
2013	206
2014	206
2015	206
2016 and after	<u>952</u>
	<u>\$ 1,982</u>

During the year ended May 31, 2010, rental expense was \$75.

**NOTE 11 - INTEREST RATE SWAP AGREEMENT**

The University entered into an interest rate swap agreement with Morgan Stanley Capital Services, Inc. (MSCS) in conjunction with the Series 2002 bond issuance, which was transferred to the Series 2008A Bonds upon the refunding of the Series 2002 Bonds. The swap agreement exchanges the variable rate interest for a fixed rate of 3.48 percent until maturity on February 1, 2033. A floating rate is determined monthly to calculate settlement payments between the University and MSCS. MSCS determines the floating rate monthly based on sixty-seven percent (67%) of the 30-day LIBOR Index. The present value of the swap is recorded as an asset or a liability based on its valuation as of May 31.

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**NOTE 12 - NET ASSETS**

Permanently restricted net assets consist of the following as of May 31, 2010 and 2009:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Investment in perpetuity, income available to support:		
Scholarships	\$ 39,924	\$ 38,233
Annuity	1,380	1,341
Research, academic support, student services, and institutional support	13,811	12,106
Property and equipment acquisition and maintenance	<u>150</u>	<u>150</u>
	<u><u>\$ 55,265</u></u>	<u><u>\$ 51,830</u></u>

Temporarily restricted net assets are available for the following purposes as of May 31, 2010 and 2009:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Scholarships	\$ 6,828	\$ 780
Annuity, life income, and similar funds	2,450	2,371
Research, academic support, student services, and institutional support	22,494	21,085
Property and equipment acquisition and maintenance	<u>8,317</u>	<u>12,859</u>
	<u><u>\$ 40,089</u></u>	<u><u>\$ 37,095</u></u>

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors for the years ended May 31, 2010 and 2009 were as follows:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Scholarships	\$ 1,189	\$ 1,712
Instruction, research, academic, and institutional support	3,177	3,118
Property and equipment acquisition and maintenance	<u>5,215</u>	<u>8,205</u>
	<u><u>\$ 9,581</u></u>	<u><u>\$ 13,035</u></u>

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**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

All funds expended in conjunction with government grants and contracts are subject to audit by government agencies. In the opinion of management, any liability resulting from these audits will not have a material effect on the University's financial position.

The University has entered into various contracts related to construction, design services, and improvements of facilities on campus for the Athletic Performance Arena, Alumni Center, Westlake Hall, infrastructure, and residential facilities for approximately \$72,932. As of May 31, 2010, the remaining balances on these contracts totaled approximately \$16,031.

**NOTE 14 - RETIREMENT PLAN**

Retirement benefits are available to all full-time employees of the University through Teachers Insurance and Annuity Association - College Retirement Equity Fund (TIAA-CREF), a national organization which funds pension benefits for educational institutions. Under this fully vested plan, the University and plan participants make monthly contributions to TIAA-CREF to purchase individual annuities equivalent to accrued retirement benefits. The University's cost of these benefits was \$2,142 and \$2,029 in 2010 and 2009, respectively.

**NOTE 15 - POSTRETIREMENT BENEFITS**

Through the University's self-insured health plan, certain benefits (other than pension benefits) are offered and provided to eligible employees and dependents after retirement. The University uses a May 31 measurement date for this plan. The obligation, funded status, and amounts recognized in the financial statements for the postretirement plans are as follows:

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**NOTE 15 - POSTRETIREMENT BENEFITS (CONTINUED)**

	<b>Fiscal Year Ended</b>	
	<b><u>May 31, 2010</u></b>	<b><u>May 31, 2009</u></b>
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at the beginning of the year	\$ 17,930	\$ 15,311
Service cost	1,426	1,168
Interest cost	1,219	894
Actuarial (gain) or loss	(1,046)	1,100
Benefits paid	(982)	(1,002)
Medicare Part D reimbursement	115	123
Plan participants' contributions	372	336
Change in plan provisions	<u>44</u>	<u>-</u>
Accumulated postretirement benefit obligation at the end of the year	<u>\$ 19,078</u>	<u>\$ 17,930</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	\$ -	\$ -
Benefits paid	(982)	(1,002)
Employer contributions	610	666
Plan participants' contributions	<u>372</u>	<u>336</u>
Fair value of assets at the end of the year	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$ 19,078</u>	<u>\$ 17,930</u>
Postretirement benefits other than pensions included in liabilities	<u>\$ 19,078</u>	<u>\$ 17,930</u>
Assumptions used to determine benefit obligation:		
Discount rate	6.50%	7.00%
Rate of compensation increase	N/A	N/A

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**NOTE 15 - POSTRETIREMENT BENEFITS (CONTINUED)**

	<u>Fiscal Year Ended</u>	
	<u>May 31, 2010</u>	<u>May 31, 2009</u>
Assumed healthcare cost trend rates for benefit obligation:		
Healthcare cost trend rate assumed for next year:		
Pre-65 trend rate	8.50%	9.0%
Post-65 trend rate	7.00%	7.5%
Ultimate rate	5.50%	5.5%
Year that the ultimate rate is reached:		
Pre-65 trend rate	2016	2016
Post-65 trend rate	2013	2013
Components of net periodic benefit cost:		
Service cost	\$ 1,426	\$ 1,168
Interest cost	1,219	894
Amortization of net (gain) loss	-	-
Amortization of prior service cost (credit)	<u>(1,282)</u>	<u>(1,282)</u>
Net periodic benefit cost	<u>\$ 1,363</u>	<u>\$ 780</u>
Assumptions used to determine net periodic benefit cost:		
Discount rate	7.00%	6.00%
Rate of compensation increase	N/A	N/A
Assumed healthcare cost trend rates for net periodic benefit cost:		
Healthcare cost trend rate assumed for next year:		
Pre-65 trend rate	9.00%	9.5%
Post-65 trend rate	7.50%	8.0%
Ultimate rate	5.50%	5.5%
Year that the ultimate rate is reached:		
Pre-65 trend rate	2016	2016
Post-65 trend rate	2013	2013

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**NOTE 15 - POSTRETIREMENT BENEFITS (CONTINUED)**

Expected contributions for fiscal year 2011 are as follows:

Expected employer contributions	\$ 1,076
Expected employee contributions	372

Estimated future benefit payments for postretirement benefits other than pensions are as follows:

	<b><u>Gross Payments</u></b>
Fiscal 2011	\$ 1,076
Fiscal 2012	1,188
Fiscal 2013	1,286
Fiscal 2014	1,363
Fiscal 2015	1,506
Fiscal 2016-2020	9,997

For measurement purposes, the following percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010:

<b><u>Year</u></b>	<b><u>Under 65</u></b>	<b><u>65 and Up</u></b>
2011	8.50%	7.00%
2012	8.00	6.50
2013	7.50	6.00
2014	7.00	5.50
2015	6.50	5.50
2016	6.00	5.50
2016+	5.50	5.50

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**NOTE 15 - POSTRETIREMENT BENEFITS (CONTINUED)**

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

	<b>1 Percentage Point <u>Increase</u></b>	<b>1 Percentage Point <u>Decrease</u></b>
Effect on total of service and interest cost components for fiscal year ended May 31, 2010	<u>\$ 341</u>	<u>\$ (286)</u>
Effect on postretirement benefits obligation as of May 31, 2010	<u>\$ 1,706</u>	<u>\$ (1,466)</u>

**Reconciliation of Items Not Yet Reflected in Net Periodic Benefit Cost**

	<b><u>June 1, 2009</u></b>	<b><u>Reclassified as Net Periodic Benefit Cost</u></b>	<b><u>Amounts Arising During Period</u></b>	<b><u>May 31, 2010</u></b>
Prior service credit	\$ (2,164)	\$ 1,282	\$ 43	\$ (839)
Net (gain) loss	603	-	(1,045)	(442)

The amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost in the next fiscal year are as follows:

Prior service credit	\$ 874
Net gain	<u>-</u>
	<u>\$ 874</u>

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**NOTE 16 - ALLOCATION OF EXPENSES**

The University excludes operation and maintenance of plant, interest on indebtedness, depreciation, and general institutional expenditures from functional expense categories in the statements of activities for the fiscal years ended May 31, 2010 and 2009. Those expenses would be distributed to the individual functional areas of the University as follows:

	<b>2010</b>				
	<b>Operations and Maintenance</b>	<b>Interest on Indebtedness</b>	<b>Depreciation</b>	<b>General Institutional</b>	<b>Total</b>
Instructional	\$ 5,113	\$ 1,591	\$ 5,030	\$ 11,237	\$ 22,971
Student services	842	262	828	1,850	3,782
General administrative	617	192	607	1,357	2,773
Library	266	83	262	586	1,197
Public service	336	105	331	739	1,511
Auxiliary	<u>2,170</u>	<u>675</u>	<u>2,134</u>	<u>4,769</u>	<u>9,748</u>
	<u>\$ 9,344</u>	<u>\$ 2,908</u>	<u>\$ 9,192</u>	<u>\$ 20,538</u>	<u>\$ 41,982</u>
	<b>2009</b>				
	<b>Operations and Maintenance</b>	<b>Interest on Indebtedness</b>	<b>Depreciation</b>	<b>General Institutional</b>	<b>Total</b>
Instructional	\$ 5,245	\$ 1,130	\$ 4,620	\$ 11,422	\$ 22,417
Student services	842	181	742	1,789	3,554
General administrative	750	162	661	1,594	3,167
Library	292	63	257	621	1,233
Public service	343	74	302	729	1,448
Auxiliary	<u>2,341</u>	<u>504</u>	<u>2,063</u>	<u>4,976</u>	<u>9,884</u>
	<u>\$ 9,813</u>	<u>\$ 2,114</u>	<u>\$ 8,645</u>	<u>\$ 21,131</u>	<u>\$ 41,703</u>

**NOTE 17 - CONCENTRATION OF CREDIT**

The University primarily maintains its cash accounts in one commercial bank. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. Total cash held by the bank was \$18,318 at May 31, 2010.

This information is an integral part of the accompanying financial statements.