Grand View University

Financial Report
June 30, 2010

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Grand View University
Des Moines, Iowa

We have audited the accompanying statements of financial position of Grand View University as of June 30, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Grand View University as of June 30, 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.

As described in Note 7 of the financial statements, the University has adopted authoritative accounting guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act.

McGladrey & Pullen, LLP

Des Moines, Iowa
October 7, 2010

Grand View University

Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	**$ 2,280,351**	$ 2,488,430
Student and other receivables, net of allowance 2010 $291,533; 2009 $261,718	**1,094,860**	722,394
Prepaid expenses	**179,806**	235,537
Inventories	**291,789**	284,629
Contributions receivable (Note 2)	**1,693,678**	1,259,910
Investments (Notes 3 and 10)	**15,161,876**	13,683,487
Student loans receivable, net of allowance 2010 $229,470; 2009 $243,510	**1,372,548**	1,462,710
Other assets	**886,819**	797,651
Unexpended bond proceeds	**13,451,771**	-
Debt service reserve fund (Note 5)	**2,010,080**	2,010,080
Land, buildings and equipment, net (Notes 4 and 5)	**48,586,342**	47,392,045
Total assets	**$ 87,009,920**	$ 70,336,873
LIABILITIES AND NET ASSETS		
LIABILITIES		
Lines of credit (Note 5)	**$ 1,564,224**	$ 2,350,000
Accounts payable	**933,871**	1,059,210
Student deposits	**513,252**	324,807
Accrued expenses	**1,584,945**	1,285,324
Notes and bonds payable (Note 5)	**45,229,482**	30,567,560
Advances from federal government for student loans and grants	**1,147,944**	1,157,264
Total liabilities	**50,973,718**	36,744,165
NET ASSETS		
Unrestricted:		
Operations	**7,695,676**	6,982,739
Board designated:		
United States government loan program	**310,562**	310,562
Long-term investment	**924,489**	719,988
Total unrestricted net assets	**8,930,727**	8,013,289
Temporarily restricted (Notes 7 and 8)	**18,890,004**	17,597,549
Permanently restricted (Notes 7 and 8)	**8,215,471**	7,981,870
Total net assets	**36,036,202**	33,592,708
Total liabilities and net assets	**$ 87,009,920**	$ 70,336,873

See Notes to Financial Statements.

Grand View University

Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Student tuition and fees	$ 31,098,809	$ -	$ -	$ 31,098,809
Scholarships and fellowships	(9,587,577)	-	-	(9,587,577)
Net tuition and fees	21,511,232	-	-	21,511,232
Gifts	291,861	315,954	-	607,815
Grants	323,005	119,458	-	442,463
Investment income (Note 3)	181,961	348,064	-	530,025
Sales and services of auxiliary enterprises	5,211,888	-	-	5,211,888
Other income, net	359,293	202,486	-	561,779
Net assets released from restrictions (Note 9)	1,155,310	(1,155,310)	-	-
Total operating revenues	29,034,550	(169,348)	-	28,865,202
Operating expenses:				
Instruction and research	10,330,723	-	-	10,330,723
Academic support	2,416,239	-	-	2,416,239
Student services	5,377,759	-	-	5,377,759
Institutional support	5,653,892	-	-	5,653,892
Auxiliary enterprises	4,531,569	-	-	4,531,569
Total operating expenses	28,310,182	-	-	28,310,182
Increase (decrease) in net assets from operating activities	724,368	(169,348)	-	555,020
Nonoperating activities:				
Contributions restricted for building and equipment	-	709,805	-	709,805
Investment income restricted for building and equipment (Note 3)	-	230,465	-	230,465
Gifts for nonoperating purposes	5,863	-	233,601	239,464
Investment return reduced by the portion of cumulative investment return designated for current operations, net of expenses (Note 3)	187,207	521,533	-	708,740
Increase in net assets from nonoperating activities	193,070	1,461,803	233,601	1,888,474
Change in net assets	917,438	1,292,455	233,601	2,443,494
Net assets at beginning of year	8,013,289	17,597,549	7,981,870	33,592,708
Net assets at end of year	$ 8,930,727	$ 18,890,004	$ 8,215,471	$ 36,036,202

See Notes to Financial Statements.

Grand View University

Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Student tuition and fees	$ 28,798,729	$ -	$ -	$ 28,798,729
Scholarships and fellowships	(9,200,285)	-	-	(9,200,285)
Net tuition and fees	19,598,444	-	-	19,598,444
Gifts	266,755	563,590	-	830,345
Grants	293,439	128,129	-	421,568
Investment income (Note 3)	202,543	511,576	-	714,119
Sales and services of auxiliary enterprises	5,076,000	-	-	5,076,000
Other income, net	424,749	223,903	-	648,652
Net assets released from restrictions (Note 9)	1,638,862	(1,638,862)	-	-
Total operating revenues	27,500,792	(211,664)	-	27,289,128
Operating expenses:		-	-	
Instruction and research	9,942,419	-	-	9,942,419
Academic support	2,251,576	-	-	2,251,576
Student services	5,070,359	-	-	5,070,359
Institutional support	5,624,063	-	-	5,624,063
Auxiliary enterprises	4,373,792	-	-	4,373,792
Total operating expenses	27,262,209	-	-	27,262,209
Increase (decrease) in net assets from operating activities	238,583	(211,664)	-	26,919
Nonoperating activities:				
Contributions restricted for building and equipment	-	741,634	-	741,634
Investment income restricted for building and equipment (Note 3)	-	(27,695)	-	(27,695)
Gifts for nonoperating purposes	24,901	32,321	230,615	287,837
Investment return reduced by the portion of cumulative investment return designated for current operations, net of expenses (Note 3)	(589,335)	(2,199,115)	-	(2,788,450)
Increase (decrease) in net assets from nonoperating activities	(564,434)	(1,452,855)	230,615	(1,786,674)
Change in net assets before reclass	(325,851)	(1,664,519)	230,615	(1,759,755)
Reclass net assets based on change in donor intent	-	(2,917,296)	2,917,296	-
Reclass net assets based on change in accounting principle (Note 7)	(4,708,892)	4,708,892	-	-
Change in net assets	(5,034,743)	127,077	3,147,911	(1,759,755)
Net assets at beginning of year	13,048,032	17,470,472	4,833,959	35,352,463
Net assets at end of year	$ 8,013,289	$ 17,597,549	$ 7,981,870	$ 33,592,708

See Notes to Financial Statements.

Grand View University

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 2,443,494**	$ (1,759,755)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**2,228,596**	2,008,382
Amortization	**32,248**	34,672
Realized and unrealized (gains) losses on investments, net	**(986,844)**	2,682,840
Noncash contributions	**(158,440)**	(34,836)
Contributions and income restricted for long-term investment	**(1,179,734)**	(1,001,776)
Changes in assets and liabilities:		
Student and other receivables	**(372,466)**	(162,218)
Student loans written off or cancelled	**9,989**	50,220
Prepaid expenses	**55,731**	(49,261)
Inventories	**(7,160)**	(76,549)
Other assets	**41,433**	1,115
Contributions receivable	**(433,768)**	1,407,784
Accounts payable	**(125,339)**	(555,762)
Student deposits	**188,445**	30,602
Accrued expenses	**299,621**	56,130
Net cash provided by operating activities	**2,035,806**	2,631,588
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(642,288)**	(7,722,019)
Proceeds from sales and maturities of investments	**309,183**	3,050,356
Purchase of property and equipment	**(3,422,893)**	(4,476,887)
(Increase) decrease in unexpended bond proceeds and debt reserve funds	**(13,451,771)**	1,961,814
Issuance of student loans receivable	**(207,144)**	(215,685)
Payments from student loans receivable	**287,317**	189,743
Net cash (used in) investing activities	**(17,127,596)**	(7,212,678)

(Continued)

Grand View University

Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes and bonds payable	**$ (740,975)**	$ (691,768)
Proceeds from issuance of bonds	**15,395,000**	-
Payment of deferred financing costs	**(154,952)**	-
Proceeds from lines of credit	**5,440,224**	5,337,853
Payments on lines of credit	**(6,226,000)**	(5,902,853)
Advances from federal government for student loans and grants	**(9,320)**	(32,207)
Contributions and income restricted for long-term investments	**1,179,734**	1,001,776
Net cash provided by (used in) financing activities	**14,883,711**	(287,199)
Net (decrease) in cash and cash equivalents	**(208,079)**	(4,868,289)
CASH AND CASH EQUIVALENTS		
Beginning	**2,488,430**	7,356,719
Ending	**$ 2,280,351**	$ 2,488,430
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION, cash payments for interest, net of capitalized interest 2010 $61,825; 2009 none	**$ 1,562,504**	$ 1,512,766

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies and Related Matters

Nature of operations: Grand View University (the University) is a private, liberal arts institution located in Des Moines, Iowa, serving primarily students from Iowa. It is affiliated with the Evangelical Lutheran Church in America and is accredited by the Higher Learning Commission for baccalaureate degrees as well as a Master of Science in Innovative Leadership.

Basis of presentation: The financial statements of the University have been prepared on the accrual basis. The University has adopted authoritative accounting guidance for not-for-profit organizations, which requires that resources be classified for reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions.

Descriptions of the three net asset categories and types of transactions affecting each category follow:

Unrestricted net assets: Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets: Net assets subject to donor-imposed restrictions that may or will be met either by actions of the University or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed restrictions to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Accounting estimates: 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 statement of financial position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include interest-bearing money market accounts and other investments with a maturity of less than three months at the date of purchase other than money market mutual funds included in the investment portfolio. Cash at June 30, 2010 and 2009 included $60,937 and $2,822, respectively, restricted to use in the Federal Perkins Loan Program and included $25,899 and $3,231 at June 30, 2010 and 2009, respectively, restricted to use in the Federal Nursing Loan Program.

Accounts and loans receivable: Accounts receivable are carried at the unpaid balance of the original amount billed to students, and student loans receivable are carried at the amount of unpaid principal. Both accounts receivable and loans to students are net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by calculating a specific percent reserve on the aging of the accounts based on historical experience and by identifying specific past due amounts. Student accounts and loans receivable are written off when deemed uncollectible and when student loans receivable may be assigned to the U.S. Department of Education. Recoveries of student accounts and loans receivable previously written off are recorded when received. Recoveries totaled approximately $2,200 and $3,400 for the years ended June 30, 2010 and 2009, respectively. The provisions for bad debts charged to expense totaled approximately $25,200 and $141,000 for the years ended June 30, 2010 and 2009, respectively.

Interest is charged on student accounts receivable that are past due and is recognized as it is charged. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding at the beginning of the term following the term to which the charges relate or if payments are not received as agreed upon. Once a receivable is sent to a collection agency, accrual of interest is suspended and recorded only if collected.

Interest is charged and recognized on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. Interest is recognized as charged. Late fees are charged if payments are not paid by the payment due date and are recognized as they are received. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education or, in the case of loan funds of the University, based on the respective program.

Inventories: Bookstore inventories are stated at the lower of cost or market.

Investments: Investments in equity and debt securities are recorded at fair value with gains and losses included in the statements of activities. Investments in certificates of deposits are recorded at cost which approximates fair value.

Deferred financing costs: Deferred financing costs are amortized by the effective interest method over the term of the related debt and are included in other assets.

Unexpended bond proceeds: Unexpended bond proceeds are held in certificates of deposit and interest-bearing accounts and are carried at cost.

Debt service reserve fund: Debt service reserve fund is held in an interest-bearing account and carried at cost.

Land, buildings and equipment: Land, buildings and equipment are stated at cost or, if received by gift, at the market or appraised value at the date of gift. Depreciation is provided on the straight-line basis over the estimated useful lives of depreciable property and equipment. Interest is capitalized on construction projects with construction periods of greater than one year.

	Years
Buildings and rental properties	20 - 60
Equipment and vehicles	3 - 10

Advances from federal government for student loans and grants: Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the United States government and are included as a liability in the statements of financial position.

Revenue recognition: Revenues are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions with donor-imposed restrictions that are met within the same reporting period are reported as temporarily restricted revenues, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenues in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of exhaustible long-lived assets, or of cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the University's depreciation policy.

Income and net gains on investments are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or the interpretation of relevant State law require that they be added to the principal of a permanent endowment fund.

- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.

- Increases in unrestricted net assets in all other cases.

Tuition and fees are recognized as revenue in the applicable enrollment period that the University provides services to its students. Revenue from auxiliary enterprises is recognized when goods or services are provided.

Scholarships and fellowships: Scholarships and fellowships are offered by the University to attract and retain students. The University offers institutional support to students in the form of merit-based scholarships and need-based fellowships at the University's discretion.

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

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

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax positions in the accompanying statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of June 30, 2010 and 2009, there were no uncertain tax positions identified and recorded as a liability.

Forms 990 and 990-T filed by the University are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990-T filed by the University are no longer subject to examination for the fiscal years ended June 30, 2006 and prior.

Functional expenses: Fund-raising expenses for the University consist of development, alumni, college relations and capital campaign costs. Total fund-raising expenses for the years ended June 30, 2010 and 2009 were approximately $841,000 and $821,000, respectively. The following schedule incorporates fund-raising expenses into a schedule of functional expenses:

	2010	2009
Program services	**$ 22,656,290**	$ 21,638,146
Supporting activities:		
Management and general	**4,813,206**	4,803,375
Fund-raising	**840,686**	820,688
	$ 28,310,182	$ 27,262,209

Operating and nonoperating activities: The University has reported its activities as operating or nonoperating. Operating activities are an integral part of the programs, services and mission of the University. Nonoperating activities do not directly affect the programs and services of the University, such as contributions for land, buildings and equipment or permanently restricted contributions. The difference between investment return and the spending rate is reported as a nonoperating activity.

Conditional asset retirement obligations: The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with authoritative accounting guidance regarding asset retirement obligations. The University has a liability recorded of approximately $159,500 and $165,000 for the years ended June 30, 2010 and 2009, respectively, which is included with accrued expenses on the statements of financial position.

Concentration of credit risk: The University had cash balances and certificates of deposit with financial institutions in excess of FDIC-insured limits during the year ended June 30, 2010. The University has not experienced any losses due to these concentrations.

Subsequent events: Subsequent events have been evaluated for potential recognition and disclosure through October 7, 2010, the date the financial statements were issued. Through that date there were no events requiring recognition or disclosure except as disclosed in Note 5.

Fair value measurements: In general, fair value measurements are based upon quoted market prices, where available. If quoted market prices are not available, fair value measurements are estimated using relevant market information and other assumptions as described in Note 10.

Note 2. Contributions Receivable

Unconditional promises to give at June 30, 2010 and 2009 are summarized as follows:

	2010	2009
Restricted for time	$ 250,863	$ 295,411
Restricted for instruction and operational support	22,000	33,500
Restricted for student scholarships and services	255,564	97,224
Restricted for purchase or renovation of property and equipment	1,471,387	1,165,217
Gross unconditional promises to give	1,999,814	1,591,352
Less unamortized discount at rates from 1.8% to 5.1%	(306,136)	(331,442)
Net unconditional promises to give	$ 1,693,678	$ 1,259,910

	2010	2009
Amount due in:		
Less than one year	$ 843,289	$ 512,969
One year to five years	527,637	403,127
Over five years	628,888	675,256
	1,999,814	1,591,352
Less unamortized discount at rates from 1.8% to 5.1%	(306,136)	(331,442)
	$ 1,693,678	$ 1,259,910

During the year ended June 30, 2007, the University received a conditional promise to give of up to $450,000. The gift has a variety of conditions, primarily with the University meeting certain construction benchmarks and providing required reports to the donor. As of June 30, 2010, the University has received $270,000 of this gift. The remaining conditions have not been met, and therefore, the remaining balance is not included above.

Included in gross unconditional promises to give are approximately $1,099,000 and $709,000 from members of the Board of Trustees, affiliates of the Board, and officers and employees of the University as of June 30, 2010 and 2009, respectively.

Note 3. Investments

The University's long-term investment portfolio at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Endowment investments:		
Equity mutual funds:		
US - large cap	$ 3,204,207	$ 2,528,000
Non-US - large cap	2,728,378	2,816,053
Emerging markets	879,356	529,774
Fixed income mutual funds:		
US - total return	3,276,767	2,502,867
Non-US - total return	650,394	521,769
Hedge fund mutual fund	1,335,210	1,066,654
Real assets mutual fund	571,926	684,741
Money market funds	153,285	1,066,758
	12,799,523	11,716,616
Other investments:		
US - large cap equity mutual funds	72,777	-
US - total return fixed income mutual funds	89,664	-
Real assets mutual fund	12,080	-
US agency bond	-	45,366
Money market funds	50,869	8,551
Certificates of deposit	1,407,480	1,400,000
Municipal bonds	729,483	512,954
	2,362,353	1,966,871
	$ 15,161,876	$ 13,683,487

Investment income (loss) for the years ended June 30, 2010 and 2009 consisted of the following:

	2010	2009
Interest and dividends	$ 542,079	$ 633,703
Realized gains and losses, net	(244,126)	(438,809)
Unrealized gains and losses, net	1,230,970	(2,244,045)
Investment management fees	(59,693)	(52,875)
	$ 1,469,230	$ (2,102,026)

The investments of the University are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 4. Land, Buildings and Equipment

Land, buildings and equipment were comprised of the following at June 30, 2010 and 2009:

	2010	2009
Land	**$ 7,569,433**	$ 5,682,858
Buildings	**48,306,102**	47,576,169
Rental properties	**62,082**	123,264
Vehicles	**45,232**	45,232
Equipment	**11,560,262**	11,095,037
Construction in progress	**579,585**	177,243
	68,122,696	64,699,803
Less accumulated depreciation	**19,536,354**	17,307,758
	$ 48,586,342	$ 47,392,045

Note 5. Notes and Bonds Payable and Lines of Credit and Subsequent Event

Notes and bonds payable at June 30, 2010 and 2009 were comprised of the following:

	2010	2009
Iowa Higher Education Loan Authority (IHELA):		
Loan agreement maturing 2036 (A)	**$ 26,415,000**	$ 27,000,000
Loan agreement maturing 2035 (B)	**15,395,000**	-
City of Altoona, loan agreement maturing 2022 (C)	**3,212,547**	3,366,946
Promissory note (D)	**92,873**	94,449
Promissory note (E)	**145,000**	145,000
Promissory note (F)	**140,000**	140,000
	45,400,420	30,746,395
Unamortized bond discount and premium	**(170,938)**	(178,835)
	$ 45,229,482	$ 30,567,560

(A) The loan agreement maturing October 1, 2036 was issued September 26, 2006 and relates to the construction, improvement, and equipping of various campus student housing, classroom, office and athletic facilities. In addition, $6,515,000 of the proceeds were used to pay off a loan agreement maturing October 1, 2025. Interest is payable semiannually on April 1 and October 1, and principal is payable annually beginning October 1, 2009. The bond bears interest at rates ranging from 4.50% to 5.10%. In accordance with the bond agreement, the University is required to maintain a debt service reserve fund which shall be used solely for the payment of principal and interest on the bonds, and the agreement provides for certain covenants including financial ratios.

(B) The loan agreement dated June 15, 2010 and maturing March 1, 2035 relates to the acquisition, construction, equipping and furnishing of a new student housing facility and related housing facility improvements, including, parking. Interest is payable monthly, and principal is payable annually beginning March 1, 2012. The loan agreement has a variable interest rate indexed on the one month LIBOR which is reset monthly, with a floor of 2.8% (2.8% as of June 30, 2010). The variable rate formula may be adjusted beginning June 15, 2017. The loan agreement is collateralized by a real estate mortgage on the project and other specified campus property. The loan agreement provides for certain covenants including financial ratios.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, on June 30, 2010 the University entered into an interest rate swap agreement for the full amount of the loan. The agreement is effective July 1, 2010 and provides for the University to receive interest from the counterparty at 70% of one-month LIBOR plus 2.10% and to pay interest to the counterparty at a fixed rate of 4.15% on the outstanding loan balance. Under the agreement, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap terminates July 1, 2017. At June 30, 2010 the fair value of the swap was zero.

(C) The loan agreement dated October 31, 2002 and maturing October 15, 2022 relates to the acquisition, construction, equipping and furnishing of a new student housing facility and related housing facility improvements including, but not limited to, parking and general improvements to the facilities and campus of the University. Interest and principal are payable monthly, and the agreement has a ten year fixed interest rate of 4.63% with a rate adjustment scheduled for October 31, 2012. The loan agreement provides that, in the event of default, the University shall provide the bank with real estate mortgages on the project. The letter of credit agreement provides for certain covenants.

(D) On August 9, 2007, the University purchased a house on contract for $100,000. The note was for 5 years at 6%, with the final payment due on September 1, 2012.

(E) The loan agreement dated September 6, 2007 relates to the acquisition of property adjacent to campus. The agreement is for 5 years at 6.75%, with the payment for principal and interest due on September 6, 2012.

(F) The loan agreement dated September 24, 2007 relates to the acquisition of property adjacent to campus. The agreement is for 5 years at 6.75%, with the payment for principal and interest due on September 24, 2012.

Interest expense incurred for the years ended June 30, 2010 and 2009 under these obligations totaled approximately $1,500,000 and $1,398,000, respectively. The University capitalizes interest as a component of the cost of construction in progress. Interest of approximately $62,000 and none was capitalized during the years ended June 30, 2010 and 2009, respectively.

Maturities of notes and bonds payable for the years ending June 30 are approximately as follows: 2011 $769,000; 2012 $666,000; 2013 $3,792,000; 2014 $585,000; 2015 $630,000 and thereafter, $38,787,000.

The University has a $5,000,000 line of credit with a bank with an expiration date of May 9, 2011. Borrowings of $1,200,000 and $2,250,000 were outstanding at June 30, 2010 and 2009, respectively. The interest rate on this line of credit is 0.5% below the prime rate with a 4% floor (4% at June 30, 2010). Interest expense incurred for the years ended June 30, 2010 and 2009 under the line of credit totaled approximately $29,000 and $34,000, respectively.

The University had a $1,600,000 line of credit with a bank for the acquisition of property for the new student housing facility with an expiration date of September 30, 2010. The interest rate on this line of credit was 0.5% below the prime rate with a 4% floor. Borrowings of none and $100,000 were outstanding at June 30, 2010 and 2009, respectively. The outstanding balance at June 15, 2010 of $1,276,000 was paid from the proceeds of the bond issuance dated June 15, 2010. The line of credit was then terminated.

The University has a $500,000 line of credit with a bank with an original expiration date of July 31, 2010. The interest rate on this line of credit is the prime rate with a 4.5% floor (4.5% at June 30, 2010). Subsequent to year end in July 2010, the expiration date was extended to January 31, 2011 maximum borrowings were reduced to $364,224 and the interest rate floor was lowered to 4.0%. Borrowings of $364,224 and none were outstanding at June 30, 2010 and 2009, respectively.

Note 6. Retirement Plans

The University has a defined contribution plan covering academic and nonacademic personnel. The University also participates in the defined contribution plans of the Evangelical Lutheran Church in America for its clergy personnel. Retirement plan expense for the years ended June 30, 2010 and 2009 totaled approximately $774,000 and $709,000, respectively.

The University also provides employees the opportunity to defer current compensation under both a 403(b) and a 457(b) plan. Although the University makes no contributions to these plans, the 457(b) plan assets and related liability to employees of $174,521 and none at June 30, 2010 and 2009, respectively, are included on the University's statement of financial position.

Note 7. Endowment Fund and Net Asset Classifications

The University's Endowment Fund consists of various donor restricted endowment funds and funds designated as endowment, quasi-endowment, by the Board of Trustees. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 Iowa legislature 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, Grand View 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 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 the State of Iowa in its enacted version of UPMIFA. 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 Endowment Fund; (2) the purposes 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; and (7) the investment policies of the University.

The University has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the University a predictable funding stream for its programs while protecting the purchasing power of the Endowment Fund. To satisfy its long-term rate-of-return objective, the University expects to maintain appropriate diversification among equity, fixed income, and alternative investment allocations as stipulated by its investment policy. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Board of Trustees of Grand View University may appropriate for expenditure or accumulate so much of the Endowment Fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board approved percentage applied to the average fair value of the endowment fund assets during the prior three year period. In cases where the fair value of endowment fund assets fall below the original value of the gifts donated to the permanent endowment, the Board has determined that no funds shall be appropriated. The Board approved spending percentage was 4.5% for the fiscal years ended June 30, 2010 and 2009.

Endowment net assets as of June 30, 2010 were as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds:				
Instruction and operational support	**$ -**	**$ 1,054,023**	**$ 3,807,556**	**$ 4,861,579**
Student scholarships and services	**(45,666)**	**596,072**	**3,955,599**	**4,506,005**
Institutional support	**-**	**138,250**	**37,312**	**175,562**
Academic support	**-**	**70,780**	**100,000**	**170,780**
General endowment	**-**	**2,029,296**	**315,004**	**2,344,300**
Board-designated (quasi) endowment funds:				
Instruction and operational support	**969,205**	**-**	**-**	**969,205**
Total endowment funds	**$ 923,539**	**$ 3,888,421**	**$ 8,215,471**	**$ 13,027,431**

Endowment net assets as of June 30, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Instruction and operational support	$ -	$ 647,530	$ 3,807,556	$ 4,455,086
Student scholarships and services	(183,753)	364,971	3,721,998	3,903,216
Institutional support		121,578	37,312	158,890
Academic support	-	56,533	100,000	156,533
General endowment	-	1,924,462	315,004	2,239,466
Board-designated (quasi) endowment funds:				
Instruction and operational support	903,741	-	-	903,741
Total endowment funds	$ 719,988	$ 3,115,074	$ 7,981,870	$ 11,816,932

The changes in endowment net assets for the year ended June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 719,988	$ 3,115,074	$ 7,981,870	$ 11,816,932
Investment return:				
Investment income	28,519	348,064	-	376,583
Net appreciation/(depreciation) (realized and unrealized)	204,555	652,410	-	856,965
Total investment return	233,074	1,000,474	-	1,233,548
Contributions	5,863	-	233,601	239,464
Appropriation of endowment funds for expenditure	(43,617)	(211,402)	-	(255,019)
Other changes	8,231	(15,725)	-	(7,494)
Endowment net assets, end of year	$ 923,539	$ 3,888,421	$ 8,215,471	$ 13,027,431

The changes in endowment net assets for the year ended June 30, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,860,478	$ 799,685	$ 4,833,959	$ 11,494,122
Net asset reclassification based on change in accounting principle	(4,708,892)	4,708,892	-	-
Endowment net assets after reclassification	1,151,586	5,508,577	4,833,959	11,494,122
Investment return:				
Investment income	46,300	511,576	-	557,876
Net appreciation/(depreciation) (realized and unrealized)	(498,218)	(2,151,167)	-	(2,649,385)
Total investment return	(451,918)	(1,639,591)	-	(2,091,509)
Contributions	-	-	230,615	230,615
Appropriation of endowment funds for expenditure	(44,297)	(530,056)	-	(574,353)
Other changes	64,617	(223,856)	2,917,296	2,758,057
Endowment net assets, end of year	$ 719,988	$ 3,115,074	$ 7,981,870	$ 11,816,932

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2010 and 2009, $45,666 and $183,753, respectively or 0.35% and 1.6%, respectively, of the University's donor restricted endowment funds were underwater. This amount is reported in unrestricted net assets. These deficiencies, which the University believes are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal years ended June 30, 2010 and 2011 for certain programs was prudent.

Note 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2010 and 2009:

	2010	2009
Gifts and other unexpended amounts available for:		
Instruction and operational support	**$ 1,203,749**	$ 679,609
Student scholarships and services	**1,173,287**	989,442
Purchase or renovation of property and equipment	**1,658,193**	1,002,060
Institutional support	**2,446,694**	2,339,145
	6,481,923	5,010,256
Time restrictions	**12,408,081**	12,587,293
	$ 18,890,004	$ 17,597,549

Permanently restricted net assets consist of endowment funds for which the income is restricted for the following at June 30, 2010 and 2009:

	2010	2009
Instruction and operational support	**$ 3,807,556**	$ 3,807,556
Student scholarships and services	**3,955,599**	3,721,998
Institutional support	**37,312**	37,312
Academic support	**100,000**	100,000
General endowment	**315,004**	315,004
	$ 8,215,471	$ 7,981,870

Note 9. 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 and appropriated by the University for the years ended June 30, 2010 and 2009 as follows:

	2010	2009
Instruction and operational support	**$ 98,388**	$ 220,475
Student scholarships and services	**573,452**	746,019
Purchase or renovation of property and equipment	**6,462**	-
Institutional support	**20,405**	258,973
	698,707	1,225,467
Time restrictions, primarily depreciation	**456,603**	413,395
	$ 1,155,310	$ 1,638,862

Note 10. Fair Value Measurements

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2010 and 2009 are as follows:

	June 30, 2010			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments:				
Equity mutual funds:				
US - large cap	**$ 3,276,984**	**$ 3,276,984**	**$ -**	**$ -**
Non-US - large cap	**2,728,378**	**2,728,378**	**-**	**-**
Emerging markets	**879,356**	**879,356**	**-**	**-**
Fixed income mutual funds:				
US - total return	**3,366,431**	**3,366,431**	**-**	**-**
Non-US - total return	**650,394**	**650,394**	**-**	**-**
Hedge fund mutual fund	**1,335,210**	**1,335,210**	**-**	**-**
Real assets mutual fund	**584,006**	**584,006**	**-**	**-**
Municipal bonds	**729,483**	**-**	**729,483**	**-**
Interest rate swap	**-**	**-**	**-**	**-**
	$ 13,550,242	**$ 12,820,759**	**$ 729,483**	**$ -**

	June 30, 2009			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Equity mutual funds:				
US - large cap	$ 2,528,000	$ 2,528,000	$ -	$ -
Non-US - large cap	2,816,053	2,816,053	-	-
Emerging markets	529,774	529,774	-	-
Fixed income mutual funds:				
US - total return	2,502,867	2,502,867	-	-
Non-US - total return	521,769	521,769	-	-
Hedge fund mutual fund	1,066,651	1,066,651	-	-
Real assets mutual fund	684,741	684,741	-	-
US agency bond	45,366	-	45,366	-
Municipal bonds	512,954	-	512,954	-
	$ 11,208,175	$ 10,649,855	$ 558,320	$ -

Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available in an active market (Level 1). If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow (Level 2).

The interest rate swap is valued using a discounted cash flow model that uses verifiable yield curve inputs to calculate the fair value and is classified within Level 2 of the valuation hierarchy. This method is not dependent on the input of any significant judgments or assumptions by management.

Authoritative accounting guidance also requires disclosures of the fair value of financial instruments whether or not recognized in the statement of financial position. Fair value is determined under the framework established above. Certain financial instruments and all nonfinancial instruments are excluded from these disclosure requirements.

Cash and cash equivalents, unexpended bond proceeds and debt service reserve fund: The carrying amount approximates fair value because of the short maturity of those instruments.

Loans to students and advances from federal government for student loans and grants: Determining the fair value of loans to students and advances from federal government for student loans and grants is not practicable due to the unique nature of these instruments.

Notes and bonds payable: The carrying amount of notes and bonds payable approximates fair value as borrowing rates currently available to the University for similar instruments are consistent with existing terms.

Lines of credit: The carrying amount of lines of credit approximates fair value because of the short-term nature and variable rates of those instruments.

Note 11. Commitments

The University has entered into various leases for automobiles and equipment, accounted for as operating leases. Rental expense for the years ended June 30, 2010 and 2009 totaled approximately $108,000 and $111,000, respectively. Future minimum rental payments are as follows: 2011 $65,000; 2012 $61,000 and 2013 $9,000.

At June 30, 2010 the University has entered into contracts totaling approximately $10.7 million for construction of a new student housing facility.