

MEREDITH COLLEGE
Raleigh, North Carolina

**FINANCIAL STATEMENTS AND
ACCOMPANYING INFORMATION**

For the Years Ended
June 30, 2010 and 2009

This page intentionally left blank.

MEREDITH COLLEGE
TABLE OF CONTENTS
Years Ended June 30, 2010 and 2009

	Page(s)
Independent Auditor's Report	1
<hr/>	
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 30

This page intentionally left blank.



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Meredith College
Raleigh, North Carolina

We have audited the accompanying statements of financial position of Meredith College (the "College") 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 College'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Meredith College 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2010 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CHERRY, BEKAERT & HOLLAND, L.L.P.

Cherry Bekaert + Holland, L.L.P.

Raleigh, North Carolina
September 10, 2010

Meredith College
Statements of Financial Position
June 30, 2010 and 2009

Assets (Note 11)	2010	2009
Cash and cash equivalents (Note 1)	\$ 1,080,149	\$ 2,029,170
Restricted cash and cash equivalents (Note 1)	68,447	3,311,229
Accounts receivable, less allowance for doubtful accounts 2010 \$1,564,038; 2009 \$1,229,350	2,264,141	2,094,311
Contributions receivable, net (Note 2)	1,309,245	1,844,314
Inventories	58,389	68,350
Investments (Note 3)	64,252,021	57,434,755
Investments held in trusts (Note 5)	283,779	398,279
Contributions receivable from charitable trusts (Note 6)	2,917,948	2,744,134
Real estate held for investment	18,550	18,550
Notes receivable from students	860,884	876,498
Unamortized debt issuance costs	597,370	636,912
Property and equipment, net (Notes 7 and 9)	78,922,528	81,088,008
Other assets	410,248	500,436
Total assets	\$ 153,043,699	\$ 153,044,946
Liabilities and Net Assets		
Accounts payable and other accrued expenses	\$ 2,363,554	\$ 4,785,022
Student deposits	165,714	171,755
Line of credit (Note 8)	5,000,000	5,000,000
Notes payable (Note 9)	3,400,825	4,050,751
Accrued postretirement benefit obligations (Note 10)	10,050,175	7,895,219
Due to donors of trusts (Note 5)	141,566	179,078
Bonds payable, net (Note 11)	56,221,397	56,831,447
Asset retirement obligation (Note 20)	1,069,212	1,007,550
Total liabilities	78,412,443	79,920,822
Commitments (Notes 7, 11, 12, 13 and 21)		
Net assets:		
Unrestricted (Note 15)	22,855,941	22,595,086
Temporarily restricted (Note 16)	6,275,403	6,725,051
Permanently restricted (Note 17)	45,499,912	43,803,987
Total net assets	74,631,256	73,124,124
Total liabilities and net assets	\$ 153,043,699	\$ 153,044,946

See Notes to Financial Statements.

Meredith College
Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 46,716,342	\$ -	\$ -	\$ 46,716,342
Less institutional grants	(12,316,719)	-	-	(12,316,719)
Net tuition and fees	34,399,623	-	-	34,399,623
Sales and services of auxiliary enterprises	7,391,711	-	-	7,391,711
State and federal grants	263,434	2,125,088	-	2,388,522
Private gifts and bequests	1,841,296	1,559,093	1,540,558	4,940,947
Investment return designated for current operations (Note 3)	1,881,095	1,878,983	-	3,760,078
Other income	2,102,621	37,513	-	2,140,134
Net assets released from restrictions (Note 18)	8,440,383	(8,440,383)	-	-
Total revenues, gains and other support	56,320,163	(2,839,706)	1,540,558	55,021,015
Expenses and losses:				
Expenses				
Educational and general:				
Instructional	19,391,978	-	-	19,391,978
Academic support	7,711,894	-	-	7,711,894
Public service	333,404	-	-	333,404
Workshops	74,586	-	-	74,586
Student services and activities	4,813,041	-	-	4,813,041
Institutional support	12,055,195	-	-	12,055,195
Student aid	2,149,112	-	-	2,149,112
Total educational and general	46,529,210	-	-	46,529,210
Auxiliary enterprises	8,944,160	-	-	8,944,160
Remainder trust expenses	224,262	-	-	224,262
Total expenses	55,697,632	-	-	55,697,632
Change in net assets from operations	622,531	(2,839,706)	1,540,558	(676,617)
Other changes:				
Investment return in excess of (less than) amounts designated for current operations (Note 3)	(345,316)	2,390,058	155,367	2,200,109
Change in postretirement benefit obligations other than periodic benefit costs (Note 10)	(1,960,553)	-	-	(1,960,553)
Gain on bond escrow re-structuring (Note 22)	1,944,193	-	-	1,944,193
Change in net assets	260,855	(449,648)	1,695,925	1,507,132
Net assets:				
Beginning	22,595,086	6,725,051	43,803,987	73,124,124
Ending	\$ 22,855,941	\$ 6,275,403	\$ 45,499,912	\$ 74,631,256

See Notes to Financial Statements.

Meredith College
Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 44,925,952	\$ -	\$ -	\$ 44,925,952
Less institutional grants	(10,624,668)	-	-	(10,624,668)
Net tuition and fees	34,301,284	-	-	34,301,284
Sales and services of auxiliary enterprises	6,540,653	-	-	6,540,653
State and federal grants	180,136	2,118,825	-	2,298,961
Private gifts and bequests	858,132	307,448	2,516,087	3,681,667
Investment return designated for current operations (Note 3)	1,987,075	1,876,907	-	3,863,982
Other income	1,545,910	89,718	-	1,635,628
Net assets released from restrictions (Note 18)	8,035,606	(8,035,606)	-	-
Total revenues, gains and other support	53,448,796	(3,642,708)	2,516,087	52,322,175
Expenses and losses:				
Expenses				
Educational and general:				
Instructional	19,328,340	-	-	19,328,340
Academic support	8,031,454	-	-	8,031,454
Public service	263,846	-	-	263,846
Workshops	119,649	-	-	119,649
Student services and activities	4,889,162	-	-	4,889,162
Institutional support	12,914,217	-	-	12,914,217
Student aid	2,170,202	-	-	2,170,202
Total educational and general	47,716,870	-	-	47,716,870
Auxiliary enterprises	8,093,808	-	-	8,093,808
Remainder trust expenses	39,875	-	-	39,875
Total expenses	55,850,553	-	-	55,850,553
Change in net assets from operations	(2,401,757)	(3,642,708)	2,516,087	(3,528,378)
Other changes:				
Investment return less than amounts designated for current operations (Note 3)	(6,818,473)	(12,662,901)	(88,312)	(19,569,686)
Change in postretirement benefit obligations other than periodic benefit costs (Note 10)	2,123,606	-	-	2,123,606
Net asset reclassification based on law change (Note 14)	(8,149,542)	7,640,886	508,656	-
Change in net assets	(15,246,166)	(8,664,723)	2,936,431	(20,974,458)
Net assets:				
Beginning	37,841,252	15,389,774	40,867,556	94,098,582
Ending	\$ 22,595,086	\$ 6,725,051	\$ 43,803,987	\$ 73,124,124

See Notes to Financial Statements.

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

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ 1,507,132	\$ (20,974,458)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,059,734	3,780,452
Bad debt expense	442,708	356,985
Accretion of asset retirement obligation	61,662	58,106
Realized and unrealized (gain) loss on investments	(4,699,572)	19,743,767
Realized and unrealized loss on assets held in trusts	51,056	58,262
(Increase) decrease in:		
Accounts receivable	(612,538)	(66,419)
Contributions receivable	535,069	553,116
Inventories	9,961	8,521
Contributions receivable from trusts	(173,814)	1,131,375
Other assets	90,188	134,471
Increase (decrease) in:		
Accounts payable and other accrued expenses	(1,431,468)	422,759
Student deposits	(6,041)	46,725
Accrued postretirement benefit obligations	2,154,956	(2,081,479)
Due to donors of trusts	(37,512)	(89,718)
Interest and dividends restricted for reinvestment	(1,289,449)	(2,905,425)
Contributions restricted for long-term investments	(1,540,558)	(2,516,087)
Net cash provided by (used in) operating activities	<u>121,514</u>	<u>(2,339,047)</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	12,354,855	19,189,737
Purchase of investments	(13,183,100)	(20,264,516)
Purchases of property and equipment	(3,354,962)	(22,415,511)
Net (loans to) repayments from students	15,614	(41,787)
Proceeds from assets held in trusts	101,127	67,646
Net cash used in investing activities	<u>(4,066,466)</u>	<u>(23,464,431)</u>

(Continued)

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

	2010	2009
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
investment in endowment	\$ 1,540,558	\$ 2,516,087
Other financing activities:		
payments of annuity obligations	(37,683)	(39,875)
Payments on notes payable	(1,119,726)	(634,724)
Payments on long-term debt	(630,000)	(525,000)
Net activity on line of credit	-	4,442,143
Net cash provided by (used in) financing activities	<u>(246,851)</u>	<u>5,758,631</u>
Net decrease in cash and cash equivalents	(4,191,803)	(20,044,847)
Cash and cash equivalents:		
Beginning	5,340,399	25,385,246
Ending	<u>\$ 1,148,596</u>	<u>\$ 5,340,399</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 2,447,326</u>	<u>\$ 1,654,807</u>
Supplemental Schedule of Noncash Investing Activity		
Acquisition of property and equipment by issuance of notes payable	<u>\$ 469,800</u>	<u>\$ 544,630</u>

See Notes to Financial Statements.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies

Nature of business: Meredith College (the "College") provides undergraduate programs to women and graduate co-educational programs to students from principally the southeast region of the United States of America.

A summary of the College's significant accounting policies follows:

Basis of presentation: The financial statements of the College have been prepared on the accrual basis of accounting. In preparing its financial statements, the College's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported in accordance with U.S. generally accepted accounting principles which require the College to report information regarding its financial position and activities in the following three classes:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. However, some of the resources are subject to Board designations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the earnings on related investments for general or specific purposes.

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

Cash and cash equivalents: For purposes of reporting cash flows, the College considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents unless they are designated or restricted for long-term purposes or permanently restricted.

The College places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The College from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2010 the College had \$1,683,039 which exceeds these insured amounts.

Restricted cash and cash equivalents: Restricted cash consists of amounts related to financial aid and bond funds. At June 30, 2010 and 2009 restricted cash was \$68,447 and \$3,311,229, respectively.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Accounts receivable: Student accounts receivable are carried at the original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines this allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student receivables are written off when deemed uncollectible. Recoveries of student receivables previously written off are recorded when received.

Student receivables are considered past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on student receivables.

Investments: Investments (including those held in charitable remainder trusts) are generally reported at fair value based upon quoted market prices determined at the financial statement date. In the case of certain less marketable investments, principally private equity investments, fair value is established based on a reasonable methodology that exists to capture and quantify changes in value. One investment is held in a limited partnership which is valued based on a pro rata share of the equity in the partnership. Unrealized and realized gains and losses and dividends and interest income from investing in income producing assets may be included in any of the net asset classifications depending on donor restrictions.

Debt issue costs: Qualified costs incurred in connection with new debt are deferred and amortized to income over the term of the related debt by the interest method.

Inventory: Post office, copy center and art department inventory is valued at the lower of cost (first-in, first-out method) or market.

Property and equipment: The College's capitalization threshold is \$2,500. Property and equipment, including real estate held for investment, acquired or constructed prior to June 30, 1980 is stated at estimated historical cost. Subsequent additions and disposals have been recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10 to 20
Buildings	40
Utility systems	5 to 25
Equipment and furniture	5 to 15

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

The College evaluates, on an on-going basis, the carrying value of property and equipment based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the useful lives of the assets are revised or the assets are written down to their estimated fair values.

Deferred income: Deferred income, which is included in accounts payable and other accrued expenses on the statement of financial position, represents the portion of student tuition and fees for summer programs which have been billed as of June 30 of each year, but not earned.

Split interest agreements: The College accepts gifts subject to split interest agreements. These gifts may be in the form of annuities, charitable lead trusts, or charitable remainder trusts and they provide for the payment of distributions to the grantor or other designated beneficiaries over the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the College's use. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (3.2% and 2.8% at June 30, 2010 and June 30, 2009, respectively). On an annual basis, the College revalues the liability for future payments to beneficiaries based on actuarial assumptions.

Contributions: Unconditional contributions received are recognized as revenues at their fair values when they are received. Contributions with donor-imposed restrictions are recorded as temporarily restricted net assets until the restrictions are met or as permanently restricted net assets. At the time temporary restrictions are met, they are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions are reported as unrestricted when the donor-imposed restrictions are satisfied in the same reporting period as the receipt of the contributions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows after an allowance for estimated uncollectible contributions is provided. The discounts on those amounts are computed using an appropriate interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Cash or other assets whose purpose is to acquire long-lived assets are recorded as unrestricted, if the College has internally designated such assets, or restricted, if such assets represent gifts received with donor imposed restrictions. Once acquired, all long-lived assets, primarily property and equipment, are also recorded as unrestricted net assets. Gifts of long-lived assets are reported as unrestricted revenue unless explicit donor stipulations specify how the donated assets must be used. Gifts specified for the acquisition, or construction of long-lived assets are generally reported as additions to unrestricted net assets when the assets are placed into service.

Income taxes: The Internal Revenue Service has ruled that the College qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not generally subject to income taxes under present tax laws.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 1 - Summary of Significant Accounting Policies (continued)

On June 1, 2007, the College adopted the provisions of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* Topic related to *Income Taxes* as it relates to accounting for uncertainty in income taxes. The College's policy is to record a liability for unrecognized tax benefits, and any related interest and penalties, when it is more likely than not a tax position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2010 and 2009 and, accordingly, no liability has been accrued.

Investment expense: The College reports investment income net of the related investment expense. Total investment expense was \$100,337 and \$117,086 for the years ended June 30, 2010 and 2009, respectively.

Statement of activities: The statement of activities includes operating revenues and gains over (under) expenses. Transactions deemed by management to be ongoing, major and central to the provision of education, research and academic support and student services are reported as operating revenues and expenses. Changes in unrestricted net assets, which are excluded from operations, include excess of actual investment return over spending rate policy, change in postretirement benefit obligations, and other items that are deemed to be unrelated and not central to the educational mission of the College.

Reclassifications: In certain instances, amounts previously reported in 2009 financial statements have been reclassified to conform to 2010 presentation. Such reclassifications had no effect on net assets or change in net assets as previously reported.

Concentrations of credit risk: Financial instruments that potentially subject the College to credit risk are primarily student accounts receivable. The College grants credit to its students and their parents for tuition and fees based upon the amount of financial aid available to the students, and establishes an allowance for doubtful accounts based upon the age of the receivable and other factors. The majority of students come from the southeast United States. However, the College attracts students from throughout the country and abroad.

Institutional advancement expenses: The College incurred expenses related to institutional advancement and fundraising amounting to \$1,118,085 and \$1,239,284 during the years ended June 30, 2010 and 2009, respectively. Such amounts are included in institutional support expenses in the accompanying statements of activities.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 2 - Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions expected to be received in periods greater than one year are recorded at the discounted present value of the future cash flows, using Treasury bill rates for similar term investments. The applicable rates at June 30, 2010 and 2009 were 1.11% to 2.29% and 1.61% to 3.04%, respectively.

Unconditional promises to give are expected to be realized in the following periods:

	2010	2009
In one year or less	\$ 815,820	\$ 1,086,604
Between one year and five years	568,364	876,294
	1,384,184	1,962,898
Less allowance for uncollectible contributions	(19,200)	(18,200)
Less unamortized discount	(55,739)	(100,384)
	<u>\$ 1,309,245</u>	<u>\$ 1,844,314</u>

Note 3 – Investments

Investments, excluding investments held in charitable remainder trusts, at June 30, 2010 and 2009 are as follows:

	2010		
	Cost	Net Unrealized Gains (Losses)	Fair Value
Cash equivalents	\$ 52,896	\$ -	\$ 52,896
Mutual funds, cash equivalents	26,412	-	26,412
Mutual funds, equities	42,412,644	(6,438,677)	35,973,967
Mutual funds, bonds	8,333,545	406,266	8,739,811
Alternative investments	19,181,337	277,598	19,458,935
	<u>\$ 70,006,834</u>	<u>\$ (5,754,813)</u>	<u>\$ 64,252,021</u>
	2009		
	Cost	Net Unrealized Gains (Losses)	Fair Value
Cash equivalents	\$ 74,411	\$ -	\$ 74,411
Mutual funds, cash equivalents	127,512	2,290	129,802
Mutual funds, equities	38,346,626	(8,843,817)	29,502,809
Mutual funds, bonds	7,833,158	550,573	8,383,731
Alternative investments	21,121,271	(1,777,269)	19,344,002
	<u>\$ 67,502,978</u>	<u>\$ (10,068,223)</u>	<u>\$ 57,434,755</u>

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 3 – Investments (continued)

The College invests in a combination of stocks, fixed income securities, money market funds and other investment securities. Investment securities 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 risks in the near term would materially affect the College's investment balance reported in the statements of financial position.

For investments in entities that calculate net asset value or its equivalent, in which fair value is not readily determinable, the following table provides information about the probability of investments being sold at amounts different from net asset value per share for year ended June 30, 2010:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds ^(a)	\$ 7,426,611		Quarterly	65 - 90 days
Private equity ^(b)	3,064,549	\$ 2,659,300	Illiquid	
Real estate funds ^(c)	3,203,468		Daily	
Timber ^(d)	5,764,307		Illiquid	
Total	<u>\$ 19,458,935</u>	<u>\$ 2,659,300</u>		

- (a) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Funds incorporate a multi-strategy approach within the credit space, as well as utilizing convertible arbitrage, risk arbitrage, equity long/short (fundamental & quantitative), distressed debt, pairs trading, private placements, global macro, commodities, real estate, reinsurance and capital structure arbitrage. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (b) This category includes funds that invest in venture capital, buyout, and emerging market funds. Funds take a menu-driven approach by combining the three strategies into a single fund that allows investors to choose their own allocation. Additionally, this category includes funds managed by tenured distressed managers, representing the full spectrum of distressed investment approaches, including short-term and medium-term trading strategies.
- (c) This category includes several real estate funds that invest across strategies such as debt origination, secondary debt or securities mispriced relative to underlying real estate values, income oriented equity, and value-added equity, as well as office properties in major metropolitan areas of the U.S. Distributions from the funds will be received as the underlying investments of the funds are liquidated.
- (d) This category includes funds that invest primarily in timber resources; however the funds may also invest in companies servicing these businesses.

For assets and liabilities measured at fair value on a non-recurring basis using significant unobservable inputs (Level 3) during the period, the following table provides a reconciliation of beginning and ending balances for the years ended June 30, 2010 and 2009, respectively:

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 3 – Investments (continued)

	Partnerships
Year Ended June 30, 2010:	
Beginning of year	\$ 2,031,065
Investment return:	
Investment income (net of fees)	(11,817)
Realized and unrealized gains (losses)	865,511
Contributions	258,100
Redemptions	(78,290)
New loans	
Collections	-
End of year	\$ 3,064,569
Year Ended June 30, 2009:	
Beginning of year	\$ 1,430,220
Investment return:	
Investment income (net of fees)	(28,851)
Realized and unrealized gains (losses)	(1,094,354)
Contributions	1,724,050
New loans	
Collections	-
End of year	\$ 2,031,065

Alternative investments at June 30, 2010 and 2009 represent the College's investment in two timber funds, one REIT, two private equity funds and two multi-strategy hybrid fund of funds that employ a variety of low volatility, absolute return oriented strategies designed to achieve consistent returns which are not dependent upon a rising equity market or correlated with the major stock or bond markets. The funds employ a multi-strategy, multi-manager investment approach using traditional and nontraditional alternative strategies. The College has certain restrictions for withdrawal of funds that generally require 60-90 days notice. The College's equity in all funds is less than 5% of each fund's participant equity. Management relies on various factors to estimate the fair value of these investments. Management believes its processes and procedures for valuing investments are effective, and, that its estimate of value is reasonable. However, the factors used by management are subject to change in the near term, and, accordingly, investment values and performance can be affected. The effect of these changes could be material to the financial statements.

At June 30, 2010 and 2009, the College holds one investment in a private equity fund that reports net asset value on a quarterly basis, lagging behind one quarter. Management has considered events disclosed by the fund manager] between March 31, 2010, the date of the last reported net asset value, and June 30, 2010. If necessary, management has adjusted the value reported as of March 31, 2010 to arrive at the fair value carried in the financial statements of \$2,803,283 and \$1,708,002 as of June 30, 2010 and 2009, respectively. The effect on the fair value of events disclosed by the fund manager, if any, on the fair value reported could change when the net asset value at June 30, 2010 is ultimately determined. The change in value could be material (or significant, based on relative carrying amount to materiality) to the financial statements.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 3 – Investments (continued)

With respect to endowment funds, state law allows the Board to appropriate as much of the net appreciation as is prudent considering the College's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the College's endowment spending policy, 5 percent of the average fair value of the endowment investments as of December 31 of the previous three years is appropriated to support current operations.

The following schedules summarize the investment return and its classification in the statements of activities:

	2010			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted Net Assets	Restricted Net Assets	
Dividends	\$ 921,736	\$ 207,075	\$ 101,831	\$ 1,230,642
Net appreciation of investments	614,043	5,204,783	53,536	5,872,362
Net realized losses	-	(1,142,817)	-	(1,142,817)
Total return on investments	1,535,779	4,269,041	155,367	5,960,187
Less: Endowment investment return designated for current obligations	1,881,095	1,878,983	-	3,760,078
Investment return in excess of (less than) amounts designated for current operations	\$ (345,316)	\$ 2,390,058	\$ 155,367	\$ 2,200,109
	2009			
	Unrestricted	Temporarily	Permanently	
	Net Assets	Restricted Net Assets	Restricted Net Assets	Total
Dividends	\$ 1,010,852	\$ 1,724,402	\$ 193,966	\$ 2,929,220
Net depreciation of investments	(5,842,250)	(9,691,449)	(282,278)	(15,815,977)
Net realized losses	-	(2,818,947)	-	(2,818,947)
Total return on investments	(4,831,398)	(10,785,994)	(88,312)	(15,705,704)
Less: Endowment investment return designated for current operations	1,987,075	1,876,907	-	3,863,982
Investment return less than amounts designated for current operations	\$ (6,818,473)	\$ (12,662,901)	\$ (88,312)	\$ (19,569,686)

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 4 - Fair Value Measurements of Assets and Liabilities

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* Topic related to *Fair Value Measurements and Disclosures*, provides the 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 as follows:

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges for identical investments as of the reporting date. The types of investments which would generally be included in Level 1 are listed equity securities.
- Level 2: Financial instruments valued using pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Fair value is determined through use of models or other valuation methodologies. The types of investments which would generally be included in Level 2 are governmental and corporate bonds and loans.
- Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the Investment Manager. The types of investments which would generally be included in Level 3 are hedge funds, general and limited partnership interests in corporate and private equity and real estate funds, and interest in pooled investments held by a third party.

The asset 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 are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 4 - Fair Value Measurements of Assets and Liabilities (continued)

The following tables summarize the valuation of the College's financial assets and liabilities measured at fair value as of June 30, 2010 and 2009, respectively, based on the level of input utilized to measure fair value:

Description	Fair value measurement at June 30, 2010		
	Level 1	Level 2	Level 3
<i>Measurement at fair value on a recurring basis:</i>			
Investments:			
Cash equivalents	\$ 52,896	\$ -	\$ -
Mutual funds, cash equivalents	26,413	-	-
Mutual funds, equities	35,973,967	-	-
Mutual funds, bonds	8,739,810	-	-
Alternative investments	-	-	19,458,935
	<u>\$ 44,793,086</u>	<u>\$ -</u>	<u>\$19,458,935</u>
Contributions receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,309,245</u>
Investments held in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 283,779</u>
Contributions receivable from charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,917,948</u>
Postretirement benefit obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,050,175</u>
Due to donors of trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,566</u>

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 4 - Fair Value Measurements of Assets and Liabilities (continued)

Description	Fair value measurement at June 30, 2009		
	Level 1	Level 2	Level 3
<i>Measurement at fair value on a recurring basis:</i>			
Investments:			
Cash equivalents	\$ 74,411	\$ -	\$ -
Mutual funds, cash equivalents	129,802	-	-
Mutual funds, equities	29,502,809	-	-
Mutual funds, bonds	8,383,731	-	-
Alternative investments	-	-	19,344,002
	\$ 38,090,753	\$ -	\$19,344,002
Contributions receivable	\$ -	\$ -	\$ 1,844,314
Investments held in trusts	\$ -	\$ -	\$ 398,279
Contributions receivable from charitable trusts	\$ -	\$ -	\$ 2,744,134
Postretirement benefit obligations	\$ -	\$ -	\$ 7,895,219
Due to donors of trusts	\$ -	\$ -	\$ 179,078

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 4 - Fair Value Measurements of Assets and Liabilities (continued)

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, the following table provides a reconciliation of beginning and ending balances for the years ended June 30, 2010 and 2009, respectively:

	Investments	Contributions Receivable	Investments Held in Trusts	Contributions Receivable from Charitable Trusts	Postretirement Benefit Obligations	Due to Donors of Trusts
Year Ended June 30, 2010						
Beginning of Year	\$ 19,344,002	\$ 1,844,314	\$ 398,279	\$ 2,744,134	\$ 7,895,219	\$ 179,078
Investment income	-	-	7,191	-	-	171
Realized and unrealized gains (losses)	1,682,222	-	-	173,814	-	-
Withdrawals	(1,871,799)	-	(194,344)	-	-	-
Expenses	-	-	-	-	480,952	-
Payments to beneficiaries	-	-	-	-	(286,549)	(37,683)
Contributions	304,510	-	52,161	-	-	-
Change in beneficial interest	-	-	20,492	-	-	-
New pledges net of pledge payments	-	(578,714)	-	-	-	-
Actuarial adjustments	-	-	-	-	1,960,553	-
Allowance and net present value adjustments	-	43,645	-	-	-	-
End of Year	<u>\$ 19,458,935</u>	<u>\$ 1,309,245</u>	<u>\$ 283,779</u>	<u>\$ 2,917,948</u>	<u>\$ 10,050,175</u>	<u>\$ 141,566</u>

	Investments	Contributions Receivable	Investments Held in Trusts	Contributions Receivable from Charitable Trusts	Postretirement Benefit Obligations	Due to Donors of Trusts
Year Ended June 30, 2009						
Beginning of Year	\$ 24,982,978	\$ 2,397,430	\$ 484,312	\$ 3,875,509	\$ 9,976,698	\$ 268,796
Investment income	-	-	11,130	-	-	-
Realized and unrealized gains (losses)	(7,742,594)	-	(17,408)	(1,131,375)	-	-
Withdrawals	(2,287,925)	-	(39,875)	-	-	-
Expenses	-	-	-	-	305,127	-
Payments to beneficiaries	-	-	-	-	(263,000)	(39,875)
Contributions	4,391,543	-	-	-	-	-
Change in beneficial interest	-	-	(39,880)	-	-	(49,843)
New pledges net of pledge payments	-	(596,599)	-	-	-	-
Actuarial adjustments	-	-	-	-	(2,123,606)	-
Allowance and net present value adjustments	-	43,483	-	-	-	-
End of Year	<u>\$ 19,344,002</u>	<u>\$ 1,844,314</u>	<u>\$ 398,279</u>	<u>\$ 2,744,134</u>	<u>\$ 7,895,219</u>	<u>\$ 179,078</u>

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 5 - Investments Held in Trusts

The College has been named as a beneficiary in several charitable trusts in which the College is the trustee. Trust investments are carried at fair value based on quoted market prices, and the liability under the trust agreement is recorded at the present value of expected future payments to be made to the beneficiary. Investments held in trusts at June 30, 2010 and 2009 consisted of the following:

		2010		
		Cost	Net Unrealized Gains	Fair Value
	Mutual funds	\$ 282,813	\$ 966	\$ 283,779
		2009		
		Cost	Net Unrealized Gains	Fair Value
	Mutual funds	\$ 415,687	\$ (17,408)	\$ 398,279

Amounts entitled Due to Donors of Trusts are recorded on the statement of financial position for the required life annuity payments at the present value of expected future cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured. The present value of future payment liabilities of charitable gift annuities was \$141,566 and \$179,078 at June 30, 2010 and 2009, respectively.

Note 6 – Contributions Receivable from Charitable Trusts

The College has been named as a beneficiary in several charitable trusts in which the College is not the trustee. When the College is notified of the existence of the trust, a receivable and contribution revenue are recorded at the present value of the estimated future cash receipts. It is the College's policy not to record contributions receivable from trusts if the trust is revocable or if the donor retains the unilateral right to change beneficiaries. A noncurrent asset for the charitable remainder trusts has been recognized at the present value of the expected future cash flow payments discounted at a rate of 3.2% and 2.8% for June 30, 2010 and 2009, respectively. The expected future cash flow represents the College's share of the fair market value of the trust principal at June 30, 2010 and 2009. Changes in the value of the trusts have been reported in the statement of activities as changes in temporarily and permanently restricted net assets.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 7 - Property and Equipment

The composition of property and equipment at June 30, 2010 and 2009 is as follows:

	2010	2009
Land	\$ 351,485	\$ 351,485
Land improvements	6,940,917	6,940,917
Buildings	95,964,155	69,142,385
Utility systems	10,344,149	10,344,149
Equipment and furniture	12,872,850	13,577,409
Construction and equipment installations in process	-	24,622,808
	126,473,556	124,979,153
Less accumulated depreciation	47,551,028	43,891,145
	\$ 78,922,528	\$ 81,088,008

Depreciation expense was \$4,968,433 in 2010 and \$3,716,494 in 2009. At June 30, 2010 and 2009, the College had construction commitments of approximately \$0 and \$1,755,519, respectively, in connection with construction projects.

Note 8 - Line of Credit

On June 27, 2008, the College entered into an agreement with a bank for a line of credit in the amount of \$5,000,000. The line bears interest based on the one month LIBOR (.35125% at June 30, 2010) plus 1.0% and was scheduled to expire on November 30, 2009. On November 3, 2009 the College entered into an agreement with the bank to renew and extend the existing \$5,000,000 line of credit and to amend the loan agreement. With the amendment, the line bears interest based on the one month LIBOR plus 1.25% and is scheduled to expire on November 30, 2010. The line is subject to an absolute interest rate floor of 2.75%. As of June 30, 2010 and 2009, \$5,000,000 was outstanding on the line of credit.

Note 9 - Notes Payable

The College's notes payable are collateralized by certain computer equipment with a net book value of approximately \$257,593 at June 30, 2010 and \$326,150 at June 30, 2009 and require monthly principal and interest installments totaling \$44,695. The outstanding balance on these loans at June 30, 2010 and 2009 is \$307,254 and \$348,608, respectively. The notes have interest rates ranging from 4.53% to 5.43% and mature at various dates in fiscal years 2011 and 2012, respectively.

On June 27, 2008, the College withdrew \$4,260,000 under two term out loan agreements to purchase equipment and fund various campus renovation projects. Each term out loan is scheduled to amortize with monthly principal and interest payments over a 7 year period ending July 1, 2015.

Term out loan one is for \$3,700,000 and carries interest based on the one month LIBOR rate plus 1.0%. The outstanding balance on this loan at June 30, 2010 and 2009 is \$2,686,905 and \$3,215,476, respectively. Term out loan two is for \$560,000 and carries interest at a fixed rate of 5.25%. The outstanding balance on this loan at June 30, 2010 and 2009 is \$406,666 and \$486,667, respectively.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 9 - Notes Payable (continued)

Principal payments over the next five fiscal years are as follows:

Year Ending June 30,	Amount
2011	\$ 846,892
2012	586,066
2013	575,754
2014	586,265
2015	597,064
Thereafter	208,784
	<u>\$ 3,400,825</u>

Note 10 - Postretirement Benefit Plan

The College sponsors a defined benefit plan, a postretirement health care plan, for all employees that meet eligibility requirements. The plan is noncontributory and unfunded. The annual measurement date for the plan is July 1. The following tables provide further information about this plan.

Components of and changes in the accumulated postretirement benefit obligation are as follows for the years ended June 30, 2010 and 2009:

	2010	2009
Obligation at beginning of year	\$ 7,895,219	\$ 9,976,698
Service cost-benefits attributable to service during the year	255,572	284,837
Interest on accumulated postretirement benefit obligation	494,396	453,319
Amortization of (gain) loss in excess of accumulated post-retirement benefit obligation	(149,301)	(225,812)
Amortization of prior service cost	(207,217)	(207,217)
Benefits paid	(286,549)	(263,000)
Early retirement window	87,502	-
Net periodic benefit cost	194,403	42,127
	<u>8,089,622</u>	<u>10,018,825</u>
Recognition of unamortized prior service cost and gain	1,960,553	(2,123,606)
Obligation at end of year	<u>\$10,050,175</u>	<u>\$ 7,895,219</u>

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 10 - Postretirement Benefit Plan (continued)

Obligations and funded status:

The following table sets forth the plan's funded status reconciled with the liability recognized in the accompanying statements of financial position at June 30, 2010 and 2009:

	2010	2009
Accumulated postretirement benefit obligation	\$ 10,050,175	\$ 7,895,219
Plan assets	-	-
Accumulated postretirement benefit obligation in excess of plan assets	10,050,175	7,895,219
Obligation included on statement of financial position	\$ 10,050,175	\$ 7,895,219

For measurement purposes, a 9.0% and an 8.0% annual rate of increase in per capita health care costs of covered benefits was assumed for 2010 and 2009, respectively, with such annual rate of increase gradually declining to 5.0% in 2013. If assumed health care cost trend rates were increased by 1 percentage point in each year, the accumulated postretirement benefit obligation at June 30, 2010 and 2009 would be increased by \$712,629 and \$657,454, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the year ended June 30, 2010 and 2009 would be increased by \$54,018 and \$60,425, respectively.

If assumed health care cost trend rates were decreased by 1 percentage point in each year, the accumulated postretirement benefit obligation at June 30, 2010 and 2009 would be decreased by \$616,454 and \$566,544, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the year ended June 30, 2010 and 2009 would be decreased by \$46,392 and \$51,541. The weighted average discount rate used in estimating the accumulated postretirement benefit obligation at both June 30, 2010 and 2009 was 5.50% and 6.0%, respectively.

Plan Assets:

The plan is unfunded and, therefore, there are no plan assets.

Cash Flows:

The College does not expect to make a contribution to the plan in fiscal year 2010. The following table provides benefit payments, which reflect expected future service as appropriate, which are expected to be paid.

	2010	
Year ending June 30,		Amount
2011	\$	476,370
2012		529,250
2013		571,073
2014		626,145
2015		662,485
2016-2021		3,601,649
		\$ 6,466,972

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 10 - Postretirement Benefit Plan (continued)

The College has approved changes to this plan that include establishing a cap on the amount available to individual qualifying retirees, providing a scaled benefit based on years of service at the time of retirement, and adjusting the criteria under which retiring employees will qualify for the benefit. These changes are effective in September 2011.

Note 11 - Bonds Payable

During 2008, the North Carolina Capital Facilities Finance Agency (the "Agency"), pursuant to a trust agreement between the Agency and a bank (the "Trustee"), issued serial and term bonds in the amount of \$57,930,000. The Agency loaned the proceeds of the bonds to the College pursuant to a loan agreement between the Agency and the College in which the College is obligated to make payments to the Agency in amounts sufficient to pay the principal and interest on the bonds. The 2008A bonds have defined, but varying interest rates ranging from 4.00% to 6.125%, payable semiannually and mature at various dates through 2035.

The interest on the 2008B bonds is determined periodically by the Remarketing Agent. The rate established by the Remarketing Agent is intended to approximate the market rate for tax exempt bonds with similar duration and credit risk. In the event the Remarketing Agent does not determine the periodic rate, or there is no Remarketing Agent, the interest rate will be the greater of, 70% of LIBOR, or the SIFMA Municipal Swap Index plus 0.10%. However, the interest rate will not exceed 12.0%. The interest rate periods can be changed by the College, or the College can convert the rate to a fixed rate, upon notice to the Remarketing Agent and Trustee and by meeting certain conditions. The interest rate on the 2008B bonds at June 30, 2010 was .22%. The proceeds from these borrowings were used to refund the bonds issued in 2002, repay a line of credit and finance the construction of new student apartments. Amounts outstanding, net of original issue discount, at June 30, 2010 and 2009 were \$56,221,397 and \$56,831,447, respectively.

The series 2008B bonds are collateralized by a letter of credit. The series 2008A bonds were issued under the College's Standard and Poor's BBB bond rating. The loan agreement outlined above contains various restrictive financial and other covenants typical of such agreements.

Principal payments over the next five years and thereafter are as follows:

Year Ending June 30,	Amount
2011	\$ 955,000
2012	995,000
2013	1,035,000
2014	1,075,000
2015	1,120,000
Thereafter	51,595,000
	56,775,000
Less unamortized discount	(553,603)
	\$ 56,221,397

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 11 - Bonds Payable (continued)

Total interest cost on indebtedness was \$2,458,454 and \$2,642,126 for the years ended June 30, 2010 and 2009, respectively, total capitalized interest represented \$11,128 and \$987,319 of this amount at June 30, 2010 and 2009, respectively.

Note 12 - Lease Commitments

The College rents laptops for sophomore and freshman students under four noncancellable operating leases which expire in 2011 and 2012, respectively. The following is a schedule of future minimum lease payments for these operating leases as of June 30, 2010:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 197,530
2012	13,950
	<u>\$ 211,480</u>

Total rent expense associated with these operating leases was \$409,537 and \$496,935 for 2010 and 2009, respectively.

Note 13 - Retirement Plans

Academic and certain other salaried employees of the College are participants in a retirement annuity plan sponsored by the College. Participants contribute 5% of compensation to the plan. Additionally, the College has a retirement annuity plan for non-faculty and non-administrative employees, which has no employee contribution requirement. During 2010, the College contributed 5% of compensation to both plans for the first five months, and no contributions were made for the remainder of the fiscal year. During 2009, the College contributed 7.5% of compensation to both plans. Expenses associated with the plans amounted to \$429,302 and \$1,578,038 in 2010 and 2009, respectively.

Note 14 - Endowment

The College's endowment consists of approximately 415 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) 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 stipulation to the contrary. As a result of this interpretation, the College 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.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 14 – Endowment (continued)

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 College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of the College 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 College
7. The investment policies of the College

Endowment net assets consists of the following at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (666,278)	\$ 5,757,492	\$ 43,470,539	\$ 48,561,753
Board-designated endowment funds	19,934,062	-	-	19,934,062
Total endowed net assets	\$ 19,267,784	\$ 5,757,492	\$ 43,470,539	\$ 68,495,815

Endowment net assets consist of the following at June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (963,718)	\$ 4,641,492	\$ 42,156,779	\$ 45,834,553
Board-designated endowment funds	19,218,438	-	-	19,218,438
Total endowed net assets	\$ 18,254,720	\$ 4,641,492	\$ 42,156,779	\$ 65,052,991

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 14 – Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	\$ 18,254,720	\$ 4,641,492	\$ 42,156,779	\$ 65,052,991
Investment return:				
Investment income	48,709	1,162,071	101,831	1,312,611
Realized and unrealized gains and losses	666,913	4,011,449	-	4,678,362
Total investment return	715,622	5,173,520	101,831	5,990,973
Contributions	-	-	1,211,929	1,211,929
Appropriation of endowment assets for expenditure	-	(3,760,078)	-	(3,760,078)
Gain (improvement in underwater)	297,442	(297,442)	-	-
Endowment net assets, June 30, 2010	\$ 19,267,784	\$ 5,757,492	\$ 43,470,539	\$ 68,495,815

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	\$ 33,346,305	\$ 9,638,686	\$ 39,446,725	\$ 82,431,716
Net asset reclassification based on law change	(8,149,542)	7,640,886	508,656	-
Total endowed net assets	25,196,763	17,279,572	39,955,381	82,431,716
Investment return:				
Investment income	-	2,596,183	193,966	2,790,149
Realized and unrealized gains and losses	(6,996,808)	(11,549,418)	-	(18,546,226)
Total investment return	(6,996,808)	(8,953,235)	193,966	(15,756,077)
Contributions	59,906	-	2,007,432	2,067,338
Appropriation of endowment assets for expenditure	(5,141)	(3,684,845)	-	(3,689,986)
Endowment net assets, June 30, 2009	\$ 18,254,720	\$ 4,641,492	\$ 42,156,779	\$ 65,052,991

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 14 – Endowment (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$666,000 and \$964,000 as of June 30, 2010 and 2009, respectively. The number of endowments with deficiencies at June 30, 2010 and June 30, 2009 were 107 and 139, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed appropriate index and style returns over a 3 – 5 year market cycle while assuming a moderate level of investment risk. The College expects in endowment funds, over three to five years, to provide an average annual real rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies in a 60-20-20 percent ratio to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year 5% of its endowment funds' average fair value using the prior 3 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing these policies, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 15 - Unrestricted Net Assets

The Board of Trustees designates a portion of unrestricted net assets for quasi-endowments as well as the portion committed to property and equipment, after being reduced by related debt. A summary of these designations is as follows as of June 30, 2010 and 2009:

	2010	2009
Board designated for Quasi-Endowments	\$ 19,934,062	\$ 19,218,438
Property and equipment, net of related debt	14,920,183	19,286,644
Donor restricted	-	(5,141)
Other unrestricted net assets (deficit)	(11,998,304)	(15,904,855)
	\$ 22,855,941	\$ 22,595,086

Note 16 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010 and 2009 are available for the following purposes or periods:

	2010	2009
Scholarships	\$ 1,068,271	\$ 2,242,986
Loans to students	755,625	714,816
Remainder trusts	159,885	238,268
Institutional support	4,291,622	3,528,981
	\$ 6,275,403	\$ 6,725,051

Note 17 - Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2010 and 2009 are restricted to:

	2010	2009
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 32,304,938	\$ 31,100,831
Institutional support	13,194,974	12,703,156
	\$ 45,499,912	\$ 43,803,987

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2010 and 2009

Note 18 - Net Assets Released From Restrictions

Net assets during the years ended June 30, 2010 and 2009 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

	2010	2009
Purpose restrictions accomplished:		
Scholarships	\$ 4,161,564	\$ 4,239,546
Institutional support	4,007,235	3,453,558
Plant facilities	36,044	295,717
Remainder trusts	224,262	39,875
Other	11,278	6,910
	<u>\$ 8,440,383</u>	<u>\$ 8,035,606</u>

Note 19 - Expense Allocation

Certain expenses are allocated to operating programs and supporting activities based upon square footage. These expenses for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Depreciation and accretion expense	\$ 5,049,011	\$ 3,794,831
Interest and amortization expense	2,447,326	1,654,807
Letter of credit fees	253,384	-
Non-capitalized plant expenses	21,953	20,146
	<u>\$ 7,771,674</u>	<u>\$ 5,469,784</u>

Allocation of these amounts to functional expense categories approximated 43% to instructional, 4% to academic support, 7% to student services and activities, 6% to institutional support, and 40% to auxiliary enterprises for both 2010 and 2009.

Note 20 – Asset Retirement Obligation

Under U.S. generally accepted accounting principles, an entity is required to recognize a liability for the fair value of a “conditional asset retirement obligation,” an asset retirement cost capitalized as an increase in the carrying amount of the associated long-lived asset and accumulated depreciation on the capitalized asset. The “obligation” recognized in the accompanying financial statements relates to the estimated costs to abate any remaining asbestos from the College’s facilities. Accretion expense was \$61,662 and \$58,106 for the year ended June 30, 2010 and June 30, 2009, respectively.

Note 21 – Undeveloped Land

The College owns approximately 50 acres of primarily undeveloped land connected to and contiguous with the main campus. The original cost of this land, approximately \$200,000, is included on the balance sheet as a part of property and equipment. The College’s long range master plan does not anticipate any use of that property for expansion of academic or educational support facilities. A June 30, 2010 appraisal of this land reveals that, even in the current depressed real estate market, the land is valued at \$4.7 million.

MEREDITH COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2010 and 2009

Note 22 – Escrow Restructuring

In April 2008, the College, as a part of the 2008 Series A and Series B bond issue, established an escrow account to fund future principle and interest payments remaining from the September 2001 bond issue. The remaining balance on the September 2001 issue was defeased by establishing this escrow account and the remaining liability removed from the College's financial statements.

In May 2010, the College had an opportunity to restructure that escrow account at a significant gain to the College. On June 1, 2010 this escrow restructuring transaction closed at a net gain to the College of \$1,944,193. In accordance with Internal Revenue Service regulations, \$246,000 of that gain was used to offset debt service payments in the year ended June 30, 2010. The College has petitioned the Internal Revenue Service for permission to use the remaining \$1,698,193 to offset debt service payments in the 2010-2011 fiscal year.

Note 23 – Commitments and Contingencies

Federally and state funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

Note 24 – Subsequent Events

The College has evaluated subsequent events through September 10, 2010, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.