

**UNIVERSITY
OF MIAMI**



FINANCIAL STATEMENTS

Fiscal years ended MAY 31, 2012 and 2011



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
University of Miami

We have audited the accompanying statements of financial position of the University of Miami (the University) as of May 31, 2012 and 2011, 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 the University of Miami as of May 31, 2012 and 2011, 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.

McGladrey LLP

Fort Lauderdale, Florida
August 29, 2012

UNIVERSITY OF MIAMI
STATEMENTS OF FINANCIAL POSITION
As of May 31, 2012 and 2011
(in millions)

Assets	May 2012	May 2011
Cash and cash equivalents	\$ 215.6	\$ 162.3
Accounts and loans receivable	345.1	359.3
Contributions receivable	102.5	96.4
Other assets	91.0	103.3
Investments	817.0	869.2
Property and equipment	1,465.2	1,442.9
Trusts held by others	43.6	52.0
Intangible assets	100.3	100.3
Total Assets	\$ 3,180.3	\$ 3,185.7
Liabilities		
Accounts payable and accrued expenses	\$ 190.3	\$ 175.0
Deferred revenues and other deposits	82.7	72.4
Accrued pension and postretirement benefit costs	398.1	247.9
Other liabilities	161.9	133.8
Actuarial liability of annuities payable	8.2	8.5
Reserves for medical self-insurance	104.8	106.5
Government advances for student loans	22.6	22.7
Bonds and notes payable	878.6	845.3
Total Liabilities	1,847.2	1,612.1
Net Assets		
Unrestricted	787.0	1,031.7
Temporarily restricted	146.5	156.5
Permanently restricted	399.6	385.4
Total Net Assets	1,333.1	1,573.6
Total Liabilities and Net Assets	\$ 3,180.3	\$ 3,185.7

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

UNIVERSITY OF MIAMI
STATEMENTS OF ACTIVITIES
For the years ended May 31, 2012 and 2011
(in millions)

	May 2012	May 2011
Changes in unrestricted net assets		
Operating activities		
Operating revenues		
Tuition and fees, net	\$ 432.6	\$ 401.2
Grants and contracts	492.2	518.8
Medical professional practice	415.3	418.4
Hospitals and clinics	814.7	751.8
Gifts and trusts	60.7	52.6
Net assets released from restrictions	19.6	31.9
Endowment spending distribution	30.1	31.1
Investment return	3.6	9.2
Auxiliary enterprises, net	105.5	99.2
Other sources	29.2	26.8
Total operating revenues	2,403.5	2,341.0
Operating expenses		
Compensation and benefits	1,468.7	1,407.5
Supplies and services	540.2	505.3
Depreciation and amortization	124.8	125.6
Utilities and maintenance	60.4	54.3
Interest	38.0	39.1
Other	199.4	195.2
Total operating expenses	2,431.5	2,327.0
Change in unrestricted net assets from operating activities	(28.0)	14.0
Non-Operating activities		
Endowment, annuity and other investment return	(70.4)	101.3
Gifts and trusts	4.7	3.5
Net gain (loss) on sale, disposal, and exchange of property and equipment	1.8	(1.6)
Net assets released from restrictions	16.5	6.7
Transfer to permanently restricted net assets	(2.3)	(2)
Change in unrestricted net assets from non-operating activities	(49.7)	109.7
Postretirement benefits related changes other than net periodic benefit cost	(167.0)	78.0
(Decrease) increase in unrestricted net assets	(244.7)	201.7
Changes in temporarily restricted net assets		
Endowment, annuity and other investment return	(5)	1.8
Gifts and trusts	32.2	37.7
Changes in value of annuities payable and trusts held by others	(1.3)	1.2
Net assets released from restrictions	(36.1)	(38.6)
Transfer to permanently restricted net assets	(4.3)	-
(Decrease) increase in temporarily restricted net assets	(10.0)	2.1
Changes in permanently restricted net assets		
Endowment, annuity and other investment return	(4.1)	.1
Gifts and trusts	11.7	11.4
Transfer from unrestricted and temporarily restricted net assets	6.6	.2
Increase in permanently restricted net assets	14.2	11.7
(Decrease) increase in total net assets	(240.5)	215.5
Net Assets		
Beginning of year	1,573.6	1,358.1
End of year	\$ 1,333.1	\$ 1,573.6

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

UNIVERSITY OF MIAMI
STATEMENTS OF CASH FLOWS
For the years ended May 31, 2012 and 2011

(in millions)

	May 2012	May 2011
Cash flows from operating activities		
(Decrease) increase in total net assets	\$ (240.5)	\$ 215.5
Adjustments to reconcile (decrease) increase in total net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investments and other assets	54.6	(125.2)
Gifts and trusts	(36.3)	(43.9)
Depreciation and amortization	124.8	125.6
Provision for doubtful accounts	108.3	97.7
Net (gain) loss on sale, disposal, and exchange of property and equipment	(1.8)	1.6
Present value adjustment on annuities payable and trusts held by others	1.3	(1.2)
Amortization of debt premiums and discounts	(1.6)	(1.8)
Change in operating assets and liabilities		
Decrease (increase) in		
Accounts and loans receivable	(96.1)	(145.4)
Contributions receivable, net	13.2	25.5
Other assets	11.9	16.4
Increase (decrease) in		
Accounts payable and accrued expenses	15.3	14.3
Deferred revenues, annuities payable and other liabilities	37.5	10.0
Accrued pension and postretirement benefit costs	150.2	(63.0)
Reserves for medical self-insurance	(1.7)	2.8
Government advances for student loans	(.1)	(.3)
Net cash provided by operating activities	139.0	128.6
Cash flows from investing activities		
Purchases of investments	(153.2)	(149.5)
Proceeds from the sales and maturities of investments and sales of property and equipment	165.4	182.6
Capital expenditures for property and equipment	(152.9)	(123.1)
Student and shared appreciation mortgage loans:		
New loans made	(3.9)	(5.1)
Principal collected	5.9	5.5
Net cash used in investing activities	(138.7)	(89.6)
Cash flows from financing activities		
Gifts for plant expansion and endowment	18.1	14.4
Proceeds from the issuance of debt	62.5	15.9
Payments to retire bonds and notes payable	(27.6)	(26.0)
Net cash provided by financing activities	53.0	4.3
Cash and cash equivalents		
Net increase	53.3	43.3
Beginning of year	162.3	119.0
End of year	\$ 215.6	\$ 162.3
Supplemental data for noncash investing and financing activities:		
Conversion of accounts receivable to other assets	\$ -	\$ 73.9
Conveyance of property in exchange for debt	\$ -	\$ 12.9

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

UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

1. ORGANIZATION

The University of Miami (the University) is a private not-for-profit institution located in South Florida. Founded in 1925, the University owns and operates educational and research facilities as well as a health care system. Its mission is to educate and nurture students, to create knowledge through innovative research programs, to provide service to our community and beyond, and to pursue excellence in health care.

These financial statements include the accounts of all entities in which the University has a significant financial interest, and over which the University has control, including its hospitals and clinics. All significant intercompany accounts and transactions have been eliminated in the preparation of these statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

Basis of Presentation

The financial statements of the University, including its hospitals and clinics, have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America for not-for-profit organizations.

The three net asset categories as reflected in the accompanying financial statements are as follows:

- **Unrestricted** - Net assets which are free of donor-imposed restrictions. It includes the University's investment in property and equipment and amounts designated by management for support of operations, programs, and facilities expansion. The University has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the University and, therefore, the University's policy is to record these net assets as unrestricted. This category includes all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. It also includes realized and unrealized gains on endowment and other long-term investments, even though the University's policy is to reinvest such earnings for future growth and to use these earnings in accordance with donor stipulations.

Unrestricted non-operating activities reflect transactions of a long-term investment or capital nature including net realized and unrealized investment gains not used to support current operations as well as contributions to be used for facilities and equipment.

- **Temporarily Restricted** - Net assets whose use by the University is limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. These net assets are available for program purposes, i.e., education, research, public service, and scholarships, as well as for buildings and equipment.
- **Permanently Restricted** - Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. These net assets are invested in perpetuity, the income from which is expended for program purposes, i.e., education, research, public service, and scholarships.

Use of Estimates

The preparation of these financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Income Taxes

The University is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. At May 31, 2012, there were no uncertain tax positions. The University files tax returns with U.S. federal and other tax authorities for which the statute of limitations may go back to the year ended May 31, 2009.

Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)**

Investments

Investments are reported at fair value. 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 at the measurement date. See note 5 for fair value measurements.

The University's investments include various types of investment securities which are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Revenue Recognition

Tuition and fees revenue is reported in the fiscal year in which educational programs are primarily conducted. Scholarships and fellowships awarded to students for tuition, fees, and room and board are based upon need and merit, and are netted against tuition and fees, and auxiliary enterprises revenue in the statements of activities as follows (in millions):

	<u>2012</u>	<u>2011</u>
Scholarships and fellowships:		
Institutionally funded	\$ 163.9	\$ 154.2
Externally funded - gifts and grants	10.2	11.9
Total amount netted against tuition and fees revenue	<u>\$ 174.1</u>	<u>\$ 166.1</u>
Amount netted against auxiliary enterprises revenue	<u>\$ 11.7</u>	<u>\$ 11.2</u>

Gifts of cash, property and marketable securities are recorded as revenue when received. Unconditional pledges (note 4) are recognized as revenue based on the estimated present value of the future cash flows, net of allowances, when the commitment is received. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category. Conditional pledges are recorded as revenue only when donor stipulations are substantially met.

Grants and contracts revenue is recognized as expenses are incurred.

Medical professional practice, and hospitals and clinics revenue (patient care revenue) are recorded based upon established billing rates less allowances for contractual adjustments. Revenues are recorded in the period the services are provided based upon the estimated amounts due from the patients and third-party payors, including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances represent the difference between established rates for services and amounts reimbursed by third-party payors based upon the payment terms specified in the related contractual agreements. Third party payors' contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. In the opinion of management, adequate provisions for adjustments that may result from such reviews and audits have been made through May 31, 2012, in the accompanying financial statements. The impact of such adjustments to operating revenues for the year ended May 31, 2012 was a decrease of \$11.5 million.

Revenue received before it is earned is deferred.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)**

Annuities Payable and Trusts Held by Others

Certain gift annuities, charitable lead and remainder annuity trust agreements have been entered into with donors. Assets held under these agreements are valued at fair value based on either the present value of expected cash flows or the value of the University's share of the underlying assets. These assets are included in trusts held by others on the statements of financial position, except for gift annuities which are included in investments. Gift annuities included in investments totaled \$18.4 and \$19.2 million at May 31, 2012 and 2011, respectively. Generally, revenue from gift annuities and trusts is recognized at the date the agreements are established net of liabilities for the present value of the estimated future payments to donors and/or other beneficiaries.

The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

The University is also the beneficiary of certain perpetual trusts which are also included in trusts held by others on the statements of financial position. The fair value of the trusts, which are based on either the present value of the estimated future cash receipts or the fair value of the assets held in the trust, are recognized as assets and gift and trust revenue as of the date the University is notified of the establishment of the trust. Distributions from the trusts are recorded as gift and trust revenue, and the carrying value of the assets is adjusted for changes in fair value.

Medical School

Faculty physicians, in addition to teaching and conducting research, engage in the practice of medicine, which generates patient care revenue. Revenues and expenses, including compensation and administrative operations from the practice of medicine, are reflected as University revenues and expenses. The net assets of patient care activities are designated for medical school programs.

The University and the Public Health Trust of Miami-Dade County, Florida (PHT), owner and operator of Jackson Memorial Hospital (JMH), have entered into an affiliation agreement related to their independent missions within the designated land and facilities that comprise the Jackson Memorial Medical Center. Pursuant to that agreement, the PHT provides clinical facilities for the teaching of the University's medical students. Medical education of its students is the sole responsibility of the University. In addition, the University has agreed to permit its faculty to apply for privileges at JMH to train and supervise JMH house staff (interns, residents, and fellows) and to treat hospital patients in their capacity as members of JMH's attending medical staff. All such treatment and training is the sole responsibility of the PHT in its capacity as the legal owner and operator of the Jackson Health System's public hospitals and clinics and its statutory teaching hospital (JMH). The affiliation agreement provides the terms for the mutual reimbursement of services provided.

Insurance

The University manages property and liability risks through a combination of commercial insurance policies and self-insurance.

The University is self-insured for medical professional liability and maintains commercial excess loss coverage within specified limits. Provisions for medical professional liability claims and related costs are based on several factors, including an annual actuarial study using a discount rate of 3% at May 31, 2012 and 2011.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Depreciation is not recorded on land and art objects. Leasehold improvements are amortized over the lesser of the lease term or the useful life.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)**

Intangible Assets

The University's goodwill relates to the excess of the purchase price over the fair value of the identifiable net assets of the University of Miami Hospital. The University is required to assess goodwill for impairment annually at March 31, or more frequently if circumstances indicate impairment may have occurred. The University assesses goodwill for such impairment by comparing the carrying value of the hospital to its estimated fair value. The fair value of the hospital is determined utilizing discounted cash flows, comparative market multiples and other factors. In its determination of fair value, the University incorporates assumptions that it believes marketplace participants would utilize (note 9).

Facilities and Administrative Cost Recovery

The Federal government reimburses the University for facilities and administrative costs incurred in connection with research grants and contracts based on provisional rates through 2012. Facilities and administrative cost recovery from government and private sources included in grant and contract revenues totaled \$72.3 and \$72.5 million during the years ended May 31, 2012 and 2011, respectively.

Accounting Change due to New Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Update No. 2010-06 to Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures-Improving Disclosures About Fair Value Measurements*, which requires new disclosures and reasons for transfers between Level 1 and Level 2 measurements under the fair value hierarchy. The amendment clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances and settlements instead of netting these changes. This portion of the amendment is effective for years beginning on or after December 15, 2010. The University adopted this portion of the amendment for the fiscal year ended May 31, 2012.

In December 2010, the FASB issued Update No. 2010-28—Intangibles—Goodwill and Other to ASC 350: *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The University adopted this amendment for the fiscal year ended May 31, 2012.

Impairment of Long-Lived Assets

ASC 360 (formerly SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*) requires that long-lived assets to be held by an entity, including intangible assets, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No asset impairments were recorded by the University in fiscal years 2012 or 2011.

Subsequent events

The University evaluated events and transactions occurring subsequent to May 31, 2012, through August 29, 2012, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the financial statements.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

3. ACCOUNTS AND LOANS RECEIVABLE

At May 31, accounts and loans receivable consist of the following (in millions):

	2012	2011
Accounts and loans receivable, net:		
Patient care	\$ 200.6	\$ 210.4
Grants, contracts and other	61.1	64.6
Shared appreciation mortgages	47.6	49.6
Student	6.9	5.1
Student loans, net	28.9	29.6
Total	<u>\$ 345.1</u>	<u>\$ 359.3</u>

Accounts and loans receivable, and student loans receivable are net of allowances for doubtful accounts of \$128.8 and \$.9 million, respectively, for 2012 and \$123.9 and \$1.0 million, respectively, for 2011.

Shared appreciation mortgages were provided as part of a program to attract and retain excellent faculty and senior administrators through home mortgage financing assistance. Shared appreciation notes amounting to \$50.1 and \$52.1 million (net of \$2.5 million allowance for doubtful accounts) at May 31, 2012 and 2011, respectively, from University faculty and senior administrators are collateralized by second mortgages on residential properties. The program was suspended effective December 31, 2008 with limited exceptions.

Student loans are made primarily pursuant to federal programs and availability of funding. The related receivables have significant government restrictions as to marketability, interest rates, and repayment terms. Their fair value is not readily determinable.

4. CONTRIBUTIONS RECEIVABLE (PLEDGES)

Unconditional pledges are recorded at the present value of their future cash flows using a discount rate commensurate with the risk involved. They are expected to be realized in the following periods at May 31, (in millions):

	2012	2011
In one year or less	\$ 31.7	\$ 29.0
Between one year and five years	59.4	53.5
More than five years	39.1	41.0
	<u>130.2</u>	<u>123.5</u>
Discount of \$17.3 and allowance of \$10.4 for 2012 and \$17.5 and \$9.6 for 2011, respectively	(27.7)	(27.1)
Total	<u>\$ 102.5</u>	<u>\$ 96.4</u>

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The valuation methodologies used for other investment instruments measured at fair value consisted of:

Variable Rate Swap Agreement

The University entered into an interest rate swap agreement on October 25, 2004 to manage the market risk associated with outstanding variable-rate debt. The swap agreement provides that the University receive a variable rate based on 3-month LIBOR and pay a fixed rate of 4.2%. Parties to the interest rate swap agreement are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The University deals only with high quality counterparties that meet rating criteria for financial stability and creditworthiness. The estimated cumulative fair value loss of the swap agreement was \$6.0 and \$3.7 million for the years ended May 31, 2012 and 2011, respectively, and is included in other investments in the tables that follow. Changes in the fair value, which for fiscal 2012 and 2011 amounted to an unrealized loss of \$2.3 and \$.9 million, respectively, are recorded as non-operating activities in the statements of activities. The notional amount was \$19.0 and \$19.5 million for fiscal 2012 and 2011, respectively.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements

Investments

The fair market value of investments at May 31, 2012 and 2011 amounted to \$817.0 and \$869.2 million, with a cost basis of \$767.0 and \$742.9 million, respectively. Short term investments consist primarily of commercial paper with maturities in excess of three months. Amounts included in limited partnerships and limited liability companies - other, represent alternative investments which are valued at the net asset value of the entities as determined by the fund. The majority of investments are combined in investment pools with each individual account subscribing to or disposing of shares on the basis of the fair value per share. At May 31, 2012 and 2011, the fair value of the University's primary investment pool (the Growth Pool) amounted to \$770.6 and \$816.3 million, with a cost basis of \$723.5 and \$695.1 million, respectively. The Growth Pool is managed by multiple investment managers with asset allocation per the University's investment policy. The total net unrealized (loss) gain on investments for the year ended May 31, 2012 and 2011 was \$(75.7) and \$97.8 million, respectively.

FASB ASC 820 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 following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for investments measured at fair value:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Inputs to the valuation methodologies include unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 — Valuations for assets traded in less active dealer or broker markets. Inputs to the valuation methodologies include quoted prices from third party pricing services for identical or similar assets in active and/or inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Valuations for assets that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Inputs to the valuation methodologies incorporate certain assumptions and projections in determining the fair value assigned to such assets.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of any input that is significant to the fair value measurement. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at May 31, 2012.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

Investments

The following tables set forth by level, within the fair value hierarchy, the University's assets at fair value (in millions):

	At May 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Short term investments	\$ 15.7	\$ -	\$ 15.7	\$ -
Corporate bonds	.6	-	.6	-
Debt securities:				
US Treasury & other government agencies	5.3	5.3	-	-
Publicly traded stocks:				
Large-mid cap	70.2	70.2	-	-
Small cap	20.6	20.6	-	-
Mutual funds:				
Equities:				
Emerging markets	23.2	-	23.2	-
International	3.4	-	3.4	-
Large-mid cap	10.7	-	10.7	-
Small cap	21.6	-	21.6	-
Fixed Income	36.5	-	36.5	-
Balanced	9.3	-	1.6	7.7
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets	29.7	-	29.7	-
International	116.6	-	116.6	-
Large-mid cap	76.5	-	76.5	-
Fixed income	86.5	-	43.2	43.3
Private equity	43.4	-	-	43.4
Other:				
Event arbitrage	73.2	-	-	73.2
Long-short composite	107.8	-	85.8	22.0
Real assets related securities	42.3	-	41.4	.9
Real estate	26.8	-	-	26.8
Other investments	(2.9)	1.4	(4.3)	-
Total investments	<u>817.0</u>	<u>97.5</u>	<u>502.2</u>	<u>217.3</u>
Trusts held by others	43.6	-	-	43.6
Total assets	<u>\$ 860.6</u>	<u>\$ 97.5</u>	<u>\$ 502.2</u>	<u>\$ 260.9</u>

UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

	At May 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Short term investments	\$ 16.4	\$ -	\$ 16.4	\$ -
Corporate bonds	.8	-	.8	-
Debt securities:				
US Treasury & other government agencies	5.4	5.4	-	-
Publicly traded stocks:				
Large-mid cap	87.7	87.7	-	-
Small cap	24.1	24.1	-	-
Mutual funds:				
Equities:				
Emerging markets	8.1	-	8.1	-
International	3.9	-	3.9	-
Large-mid cap	11.2	-	11.2	-
Small cap	24.0	-	24.0	-
Fixed Income	50.4	-	50.4	-
Balanced	8.9	-	.6	8.3
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets	23.6	-	23.6	-
International	163.0	-	163.0	-
Large-mid cap	73.7	-	73.7	-
Fixed income	83.3	-	41.2	42.1
Private equity	50.0	-	-	50.0
Other:				
Event arbitrage	72.7	-	-	72.7
Long-short composite	97.4	-	74.0	23.4
Real assets related securities	34.9	-	33.3	1.6
Real estate	23.8	-	-	23.8
Other investments	5.9	7.7	(1.8)	-
Total investments	869.2	124.9	522.4	221.9
Trusts held by others	52.0	-	-	52.0
Total assets	<u>\$ 921.2</u>	<u>\$ 124.9</u>	<u>\$ 522.4</u>	<u>\$ 273.9</u>

UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
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5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

The following tables set forth a summary of changes in the fair value of the University's level 3 assets:

For the year ended May 31, 2012 (in millions):

	May 31, 2011	Purchases	Sales	Net Income Reinvested	Total net gains (losses) included in changes in net assets		Transfers in and/or out of level 3	May 31, 2012
					Realized	Unrealized		
Mutual funds - balanced	\$ 8.3	-	(.3)	.1	.2	(.6)	-	\$ 7.7
Limited partnerships and limited liability companies:								
Fixed income	42.1	-	-	1.5	-	(.3)	-	43.3
Private equity	50.0	4.9	(14.4)	.7	5.1	(2.9)	-	43.4
Other:								
Event arbitrage	72.7	-	-	2.1	(.7)	(.9)	-	73.2
Long-short composite	23.4	-	-	(.4)	1.1	(2.1)	-	22.0
Real assets related								
securities	1.6	-	(.6)	-	-	(.1)	-	.9
Real estate	23.8	3.6	(3.5)	.7	.7	1.5	-	26.8
Total investments	221.9	8.5	(18.8)	4.7	6.4	(5.4)	-	217.3
Trusts held by others	52.0	-	(4.3)	-	-	(4.1)	-	43.6
Total assets	\$ 273.9	\$ 8.5	\$ (23.1)	\$ 4.7	\$ 6.4	\$ (9.5)	\$ -	\$ 260.9

For the year ended May 31, 2011 (in millions):

	May 31, 2010	Purchases, sales, issuances, settlements, net	Net Income Reinvested	Total net gains (losses) included in changes in net assets		Transfers in and/or out of level 3	May 31, 2011
				Realized	Unrealized		
Mutual funds - balanced	\$ 7.4	(.4)	.4	-	.9	-	\$ 8.3
Limited partnerships and limited liability companies:							
Fixed income	49.6	(12.0)	1.7	(1.0)	3.8	-	42.1
Private equity	45.6	(4.2)	1.1	3.6	3.9	-	50.0
Other:							
Event arbitrage	66.3	-	4.6	(4.4)	6.2	-	72.7
Long-short composite	33.5	(13.3)	(.7)	1.9	2.0	-	23.4
Real assets related							
securities	1.7	(.1)	-	-	-	-	1.6
Real estate	16.9	3.5	(.1)	.4	3.1	-	23.8
Total investments	221.0	(26.5)	7.0	.5	19.9	-	221.9
Trusts held by others	52.0	(1.1)	-	-	1.1	-	52.0
Total assets	\$ 273.0	\$ (27.6)	\$ 7.0	\$.5	\$ 21.0	\$ -	\$ 273.9

Sales amounts presented above for the years ended May 31, 2012 and 2011 for trusts held by others represent settlement transactions. There were no other issuances and settlements for the years ended May 31, 2012 and 2011.

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

The total level 3 change in net unrealized (losses) gains for the years relating to those investments still held at May 31, 2012 and 2011 total \$(5.4) and \$19.9 million, respectively, and are reflected as part of investment return in the statements of activities. The total level 3 change in value related to trusts held by others at May 31, 2012 and 2011 total \$(4.1) and \$1.1 million, respectively, and are reflected as part of investment return and changes in value of annuities payable and trusts held by others in the statements of activities.

The following tables summarize the University's assets whose fair value is estimated using net asset value per share (in millions):

Assets:	At May 31, 2012			
	Fair Value	Future Commitments	Redemption Frequency	Days Notice
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets	\$ 29.7	\$ -	(M)	30 days
International	116.6	-	(M)	5-15 days
Large-mid cap	76.5	-	(Q)	60 days
Fixed income	86.5	-	(M), (A)	10-90 days
Private equity	43.4	17.8	*	N/A
Other:				
Event arbitrage	73.2	-	(Q)	65-90 days
Long-short composite	107.8	-	(M), (Q), (A)	45-90 days
Real assets related securities	42.3	-	(M), (Q)	10-60 days
Real estate	26.8	8.0	*	N/A
Other investments	(2.9)	-	N/A	N/A
Total investments	<u>599.9</u>	<u>25.8</u>		
Trusts held by others	43.6	-	N/A	N/A
Total assets	<u>\$ 643.5</u>	<u>\$ 25.8</u>		

Assets:	At May 31, 2011			
	Fair Value	Future Commitments	Redemption Frequency	Days Notice
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets	\$ 23.6	\$ -	(M)	30 days
International	163.0	-	(M), (Q)	5-15 days
Large-mid cap	73.7	-	(M), (Q)	60 days
Fixed income	83.3	-	(M), (A)	10-90 days
Private equity	50.0	22.7	*	N/A
Other:				
Event arbitrage	72.7	-	(Q)	65-90 days
Long-short composite	97.4	-	(Q), (A)	45 days
Real assets related securities	34.9	-	(M), (S)	10 days, 6 months
Real estate	23.8	11.4	*	N/A
Other investments	5.9	-	N/A	N/A
Total investments	<u>628.3</u>	<u>34.1</u>		
Trusts held by others	52.0	-	N/A	N/A
Total assets	<u>\$ 680.3</u>	<u>\$ 34.1</u>		

Redemption Frequency: (A) Annually, (S) Semi-annually, (Q) Quarterly, (M) Monthly

(*) The expected liquidation date for these assets range from 2015 to 2025 and are based on a combination of the inception date of the fund and the expected life of the fund as outlined in the partnership agreement inclusive of the manager's ability to extend the fund's life.

**UNIVERSITY OF MIAMI
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May 31, 2012 and 2011**

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

The University's investment policy and strategy for its investments, as established by the Investment Committee (the Committee) of the Board of Trustees (the Board) and ratified by the Executive Committee of the Board, is to provide for growth of capital with a moderate level of volatility by investing assets based on its target allocations. The weighted average target allocations for University assets is 45% equity securities, 10% fixed income, and 45% other investments. The Committee rebalances its investments periodically to meet established target allocations. In addition, the Committee reviews its investment policy and target allocations periodically and effects changes when required, to ensure that strategic objectives are achieved. Equity securities include investments in large-mid cap and small-cap companies primarily located in the United States, as well as international companies. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other investments include private equity funds, real estate funds, and hedge funds that pursue multiple strategies to diversify risks and reduce volatility. These investments, which at May 31, 2012 consist of investments similar to those of the HFRI Fund of Funds, S&P 500, Russell 2000, DJ/UBS Commodity, NCREIF Property and MSCI Indexes, are made with the intention of raising portfolio return and lowering total volatility.

Investment Return

The University's endowment spending distribution policy is to distribute five percent of the three-year moving average fair market value of the endowment investment pool. This policy is designed to protect the purchasing power of the endowment and to minimize the effect of capital market fluctuations on operating budgets.

The components of total investment return as reflected in the statements of activities are as follows (in millions):

	2012	2011
Operating:		
Endowment spending distribution	\$ 30.1	\$ 31.1
Investment return	3.6	9.2
Total operating investment return	33.7	40.3
Non-Operating:		
Unrestricted		
Endowment interest and dividend income, realized and unrealized (losses) gains, net of endowment spending distribution	(62.4)	85.7
Other net realized and unrealized (losses) gains	(8.0)	15.6
Total unrestricted non-operating investment return	(70.4)	101.3
Temporarily restricted investment return	(.5)	1.8
Permanently restricted investment return	(4.1)	.1
Total non-operating investment return	(75.0)	103.2
Total investment return	\$ (41.3)	\$ 143.5

6. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, patient, student and other receivables, accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying amounts of notes payable with variable interest rates approximate their fair value since the variable rates reflect current market rates for notes with similar maturities and credit quality. The fair value of bonds payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities. The estimated fair value of these bonds payable at May 31, 2012 and 2011 approximated \$804.1 and \$756.8 million, respectively. The carrying amounts of these bonds payable at May 31, 2012 and 2011 approximated \$761.1 and \$781.3 million, respectively.

UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

7. OTHER ASSETS

Other assets primarily represent prepaid expenses and inventories. During September 2010, the University entered into a tri-party agreement with the Public Health Trust (PHT) and Miami-Dade County wherein the receivable associated with the annual operating agreement was converted to a prepaid asset. The value of the receivable at September 30, 2010 was \$73.9 million, and included a long-term land lease with a discounted value of \$14.1 million. The University will receive goods, rentals, and services in the normal course of business with the PHT until the prepaid asset is exhausted. At May 31, 2012 and 2011, the remaining prepaid asset under this agreement, after application of purchased services for the twelve months ended 2012 and for the months of October 2010 through May 2011 for the year ended 2011 was \$42.6 and \$60.2 million, respectively. Based on the repayment terms of the agreement, the balance of the prepaid asset should be exhausted by March 1, 2014, with the exception of the long-term land lease which extends through 2080.

8. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation and amortization at May 31 consist of the following (in millions):

	Useful Lives	2012	2011
Land	-	\$ 93.9	\$ 94.9
Land improvements	20 years	88.1	87.6
Buildings and building improvements	8 to 50 years	1,544.1	1,506.2
Leasehold improvements	1 to 50 years	38.6	32.5
Construction in progress	-	94.0	47.7
Moveable equipment	3 to 20 years	557.0	528.9
Library materials	12 years	113.4	110.8
Art objects	-	52.4	51.8
		<u>2,581.5</u>	<u>2,460.4</u>
Accumulated depreciation and amortization		<u>(1,116.3)</u>	<u>(1,017.5)</u>
Total		<u>\$ 1,465.2</u>	<u>\$ 1,442.9</u>

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. Net interest expense of \$2.1 and \$2 million was capitalized for the years ended May 31, 2012 and 2011, respectively.

9. INTANGIBLE ASSETS

On December 1, 2007, the University acquired certain assets and liabilities of a general acute care hospital. As part of the transaction, intangible assets were recorded amounting to \$105.2 million. In addition, the University acquired a physician practice and recorded \$1.7 million as an intangible asset for the year ended May 31, 2010. In accordance with ASC 350 (formerly SFAS No. 142, *Intangibles – Goodwill and Other*), amortization of intangible assets ceased at May 31, 2010.

Intangible assets recorded are as follows (in millions):

	2012	2011
Amortized intangible assets		
Goodwill at gross carrying value	\$ 105.8	\$ 105.8
Accumulated amortization through May 31, 2010	(6.6)	(6.6)
Indefinite lived intangible assets	1.1	1.1
Total	<u>\$ 100.3</u>	<u>\$ 100.3</u>

UNIVERSITY OF MIAMI
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10. ENDOWMENT

In August 2008, the FASB issued ASC 958-205-50 (formerly FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*). This standard provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This standard also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The disclosure requirements of this standard are reflected below. On June 17, 2011, the State of Florida enacted a version of UPMIFA which is effective July 1, 2012. Generally, the law governs conduct in the management and investment of institutional funds, the expenditure or accumulation of endowment funds, and the release or modification of restrictions on the management or investment of institutional funds. The new law will result in the reclassification of amounts currently classified as unrestricted net assets to temporarily restricted net assets.

Application of Relevant Law

As discussed above, the State of Florida has now enacted UPMIFA which is effective July 1, 2012. The current law, known as the Uniform Management of Institutional Funds Act (UMIFA) requires preservation of the fair value of the original gift as of the gift date, absent explicit donor stipulations to the contrary. Therefore, the University classifies as permanently restricted net assets (a) the original value of gifts donated where the donor has stipulated that the principal is to be maintained in perpetuity with only the income from the gift to be expended, (b) the original value of subsequent similar type gifts, and (c) accumulations to the fund made in accordance with the direction of the applicable donor gift instrument. Endowments are classified as temporarily restricted where the donor has stipulated that the principal of the gift may be released from inviolability to permit all or part of the principal to be expended, and as unrestricted endowments where the Board, rather than a donor, decides to retain and invest the principal with only the income available to be expended. The Board has the right at any time to expend the principal of unrestricted endowments.

Spending Policy

The University's endowment spending distribution policy in support of its programs is to distribute five percent of the three-year moving average fair market value of the endowment investment pool. New endowments must be received prior to December 31 in order to activate the spending distribution for the next fiscal year. In addition, no distribution is made from an endowment until its funding reaches, by December 31, the level stipulated by policy. Further, endowments to establish Chairs and Professorships have an additional delay of one year before distributions are made.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies to protect the purchasing power of the endowment and to minimize the effect of capital market fluctuations on operating budgets.

The intent of the University's policy for its primary investment pool (the Growth Pool), as approved by the Board, is to achieve a rate of return equal to or greater than the respective benchmark, while assuming a moderate level of risk. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints. The current long-term return objective is to earn a return of at least the Consumer Price Index plus 5%, net of fees. Actual returns in any given year may vary from this amount.

UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

10. ENDOWMENT (Continued)

Endowment net assets consist of the following (in millions):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
At May 31, 2011:				
Donor restricted endowment funds	\$ 196.4	\$ 29.4	\$ 326.5	\$ 552.3
Quasi endowment funds	167.6	-	-	167.6
Total	<u>\$ 364.0</u>	<u>\$ 29.4</u>	<u>\$ 326.5</u>	<u>\$ 719.9</u>
At May 31, 2012:				
Donor restricted endowment funds	\$ 150.9	\$ 29.2	\$ 345.7	\$ 525.8
Quasi endowment funds	152.9	-	-	152.9
Total	<u>\$ 303.8</u>	<u>\$ 29.2</u>	<u>\$ 345.7</u>	<u>\$ 678.7</u>

Donor restricted endowment funds included in unrestricted endowment net assets represent the unappropriated appreciation of endowment funds, net of deficiencies in the market value of certain endowment related assets which fell below the donor required level to retain funds in perpetuity. At May 31, 2012 and 2011, this deficiency amounted to \$9.9 and \$2.9 million, respectively, and resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, as well as continued appropriations for certain programs deemed prudent by the University.

Quasi endowment funds are resources segregated for long term investment and include gains and losses on unrestricted investments, and other resources designated by the Board for future programs and operations.

Changes in endowment net assets for the fiscal years ended May 31, 2012 and 2011 consist of (in millions):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, May 31, 2010	\$ 276.2	\$ 29.3	\$ 312.7	\$ 618.2
Investment return				
Investment income	11.3	-	(.1)	11.2
Net appreciation (realized and unrealized)	105.5	-	-	105.5
Total investment return	116.8	-	(.1)	116.7
Gifts and Trusts	1.4	.3	13.7	15.4
Endowment spending distribution for programs	(31.1)	-	-	(31.1)
Net transfers from quasi endowment funds	(2.0)	-	-	(2.0)
Other	2.7	(.2)	.2	2.7
Balance, May 31, 2011	<u>364.0</u>	<u>29.4</u>	<u>326.5</u>	<u>719.9</u>
Investment return				
Investment income	10.0	-	(.1)	9.9
Net depreciation (realized and unrealized)	(42.3)	-	-	(42.3)
Total investment return	(32.3)	-	(.1)	(32.4)
Gifts and Trusts	.1	.2	17.0	17.3
Endowment spending distribution for programs	(30.1)	-	-	(30.1)
Net transfers from quasi endowment funds	(.6)	-	-	(.6)
Other	2.7	(.4)	2.3	4.6
Balance, May 31, 2012	<u>\$ 303.8</u>	<u>\$ 29.2</u>	<u>\$ 345.7</u>	<u>\$ 678.7</u>

**UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011**

11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The University has two non-contributory retirement plans, the Faculty Retirement Plan and the Employee Retirement Plan. These two plans were closed to employees hired after May 31, 2007. Effective June 1, 2007 a new retirement plan was established, the Retirement Savings Plan.

The University also sponsors an unfunded, defined benefit postretirement health plan that covers all full-time and part-time regular employees who elect coverage and satisfy the plan's eligibility requirements when they retire. The plan is contributory with retiree contributions established as a percentage of the total cost for retiree health care and for the health care of their dependents. The University pays all benefits on a current basis.

The Retirement Savings Plan (Savings Plan) is a defined contribution plan in which the University makes an automatic core contribution of 5% of pay with a dollar-for-dollar match on voluntary contributions up to an additional 5% of pay once the employee meets certain eligibility requirements. Eligible employees can begin making voluntary contributions to the Savings Plan at any time. Participation is limited to faculty and staff hired on or after June 1, 2007 or who elected, prior to June 1, 2007, to transfer to this plan from the Faculty Retirement Plan or from the Employee Retirement Plan. Core and matching contributions to the Savings Plan for 2012 and 2011 were \$33.4 and \$29.0 million, respectively.

The Retirement Savings Plan II (Savings Plan II) is a defined contribution plan the University established, effective January 1, 2008, that covers substantially all employees of the University of Miami Hospital (UMH). The plan is available to employees who meet certain eligibility requirements and requires that UMH match certain percentages of participants' contributions up to certain maximum levels. Eligible employees can begin making voluntary contributions to the Savings Plan II at any time. Core and matching contributions to the Savings Plan II were \$5.6 and \$4.9 million for the years ended May 31, 2012 and 2011, respectively.

Faculty Retirement Plan (Faculty Plan) is a defined contribution plan for eligible faculty hired between September 30, 1977 and May 31, 2007, and certain faculty hired on or before September 30, 1977, who ceased participation in the Employee Retirement Plan. Under the terms of the Faculty Plan, the University makes contributions to individual retirement accounts for each eligible faculty member. Payment from the retirement account commences when the faculty member has separated from service and elects to begin distributions in accordance with plan provisions.

Contributions to the Faculty Plan are based upon a combination of compensation, tenure status, length of service, and other factors and are funded as accrued. These contributions were \$24.1 million for the years ended May 31, 2012 and 2011. In addition to the above noted plans, there are deferred compensation arrangements for certain employees, principally clinical faculty, the liability for which is included in other liabilities.

The Employee Retirement Plan (Employee Plan) is a defined benefit plan primarily for full-time non-faculty employees hired before June 1, 2007. Employee Plan assets are held by a Trustee. The benefit is based on the higher of two formulas: a formula based on years of service and the employee's compensation for the consecutive five year period of employment that produces the highest average; and a cash balance benefit formula determined each year based on compensation and investment earnings.

At May 31, 2009, a proposed Employee Plan amendment was approved by the Internal Revenue Service which enables the plan to offer lump sum distribution options to participants who retired on or after January 1, 2001 and met the Rule of 70 (combination of age and service).

The measurement date for the Employee Plan and postretirement health plan is May 31 for fiscal years 2012 and 2011.

UNIVERSITY OF MIAMI
NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The following benefit payments, which reflect expected future service, are expected to be paid, for the fiscal years ending May 31 (in millions):

	Pension Benefits	Postretirement Benefits
2013	\$ 36.0	\$.2
2014	37.2	.2
2015	38.1	.2
2016	40.8	.2
2017	41.7	.2
2018-2022	235.4	1.1

The University expects to contribute \$57.9 million to the Employee Plan and \$.2 million to its postretirement health plan during the fiscal year ending May 31, 2013.

The tables that follow provide a reconciliation of the changes in the plans' projected benefit obligations, fair value of assets and funded status (in millions):

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 772.3	\$ 755.9	\$ 2.0	\$ 3.4
Service cost – benefits attributed to employee service during period and administrative expenses	20.0	20.6	.2	.2
Interest costs accrued to measure benefit obligation at present value	42.9	42.0	.2	.1
Plan participant contributions	-	-	.7	.7
Actuarial loss (gain)	124.6	(13.9)	.8	(1.4)
Benefits paid and administrative expenses	(32.3)	(32.3)	(.6)	(1.0)
Benefit obligation at end of year	<u>927.5</u>	<u>772.3</u>	<u>3.3</u>	<u>2.0</u>
Change in Plan Assets				
Employee Plan assets at fair value at beginning of year	526.4	448.4	-	-
Investment return on Employee Plan assets	(9.8)	79.4	-	-
Benefits paid and Employee Plan expenses	(32.3)	(32.3)	(.6)	(1.0)
Employer contributions	48.4	30.9	-	.3
Plan participant contributions	-	-	.6	.7
Employee Plan assets at fair value at end of year	<u>532.7</u>	<u>526.4</u>	<u>-</u>	<u>-</u>
Funded status				
Accrued pension and postretirement benefit costs recognized on the statements of financial position	<u>\$ (394.8)</u>	<u>\$ (245.9)</u>	<u>\$ (3.3)</u>	<u>\$ (2.0)</u>
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss (gain)	\$ 381.5	\$ 215.9	\$ (1.4)	\$ (2.2)
Prior service credit	(4.5)	(5.1)	(.7)	(.8)
Transition obligation	-	-	.1	.2
	<u>\$ 377.0</u>	<u>\$ 210.8</u>	<u>\$ (2.0)</u>	<u>\$ (2.8)</u>

At May 31, 2012 and 2011, the accumulated benefit obligation of the Employee Plan was \$876.0 and \$731.9 million, respectively, \$343.3 and \$205.5 million, respectively, in excess of Employee Plan assets.

UNIVERSITY OF MIAMI
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11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The following table provides the components of net periodic pension cost for the plans (in millions):

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Service cost:				
Benefits attributed to employee service during periods and administrative expenses	\$ 20.0	\$ 20.6	\$.2	\$.2
Total	20.0	20.6	.2	.2
Interest costs accrued to measure benefit obligation at present value	42.9	42.0	.2	.1
Expected return on Employee Plan assets	(43.8)	(36.4)	-	-
Amortization of prior service cost/(credit) - includes changes in pension formula and cost of Employee Plan amendments	(.6)	(.6)	(.1)	(.1)
Amortization of transition obligation	-	-	.1	.1
Recognized net actuarial loss (gain)	12.7	20.3	(.1)	(.1)
Net periodic benefit cost	<u>\$ 31.2</u>	<u>\$ 45.9</u>	<u>\$.3</u>	<u>\$.2</u>

The net actuarial loss (gain), prior service cost (credit), and transition amount expected to be recognized in net periodic benefit cost over the next fiscal year are as follows (in millions):

	Pension Benefits	Postretirement Benefits
Net actuarial loss (gain)	\$ 27.1	\$ (.1)
Prior service credit	(.6)	(.1)
Transition obligation	-	.1

A 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012. The rate is assumed to decrease 1% per year until reaching the ultimate 5.5% in 2018. Assumed health care cost trend rates have an effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effect (in millions):

	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$.1	\$ (.1)
Effect on the health care component of the accumulated postretirement benefit obligation	.5	(.4)

The following weighted-average assumptions were used for the above calculations:

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Discount rate for benefit obligation	4.55%	5.55%	4.65%	5.55%
Discount rate for net periodic benefit cost	5.55%	5.65%	5.55%	5.65%
Expected return on Employee Plan assets	8.25%	8.25%	N/A	N/A
Rate of compensation increase	3.70%/4.20%	4.20%	N/A	N/A

The rate of compensation increase assumption related to the net periodic benefit cost is 3.70% for fiscal 2012 to 2016, and 4.20% thereafter. To develop the expected long-term rate of return for the Employee Plan assets, the University considered the historical returns of the major market indicators relating to the target asset allocation, as well as the current economic and financial market conditions.

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11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employee Plan Assets

The investment policy and strategy, as established by the University, is to provide for growth of capital with a moderate level of volatility by investing assets based on its target allocations. The weighted average target allocations for plan assets of the Employee Plan is 34.0% equity securities, 35.0% fixed income, and 31.0% other investments. The University rebalances its investments periodically to meet the target allocations. The University also reviews its investment policy periodically to determine if the policy or allocations require change. Equity securities include investments in large-mid cap and small-cap companies primarily located in the United States, as well as international companies. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include investments in hedge funds and private equity funds that follow several different strategies. These investments, which at May 31, 2012 consist of investments similar to those of the HFRI Fund of Funds, S&P 500, Dow Jones, AIG Commodity, MCSI and NCREIF Property Indexes, are made with the intention of raising portfolio return and lowering total volatility. See note 5 for fair value measurement narrative disclosures.

The Employee Plan's investments, by level, within the fair value hierarchy are as follows (in millions):

	At May 31, 2012			
	Total	Level 1	Level 2	Level 3
Common stocks:				
Large-mid cap	\$ 35.7	\$ 35.7	\$ -	\$ -
Small cap	16.7	16.7	-	-
Registered mutual funds:				
Equities - emerging markets	3.0	-	3.0	-
Fixed Income	94.0	-	94.0	-
Unregistered limited partnerships and limited liability companies:				
Equities:				
Emerging markets	9.9	-	9.9	-
International	7.1	-	7.1	-
Large-mid cap	49.2	-	49.2	-
Private equity	17.6	-	-	17.6
Other:				
Event arbitrage	31.2	-	-	31.2
Long-short composite	26.9	-	16.7	10.2
Real estate	15.9	-	-	15.9
Real assets related securities	9.6	-	9.6	-
Money market accounts	3.2	3.2	-	-
Common collective trusts:				
Equities - international	10.5	-	10.5	-
Real assets related securities	12.9	-	12.9	-
103-12 Investment entities:				
Equities:				
International	40.8	-	40.8	-
Small cap	17.5	-	17.5	-
Fixed income	100.8	-	92.9	7.9
Other investments:				
Private equity	3.4	-	-	3.4
Long-short composite	15.7	-	15.6	.1
Fixed income	10.6	-	-	10.6
Real assets related securities	.6	-	-	.6
Total	\$ 532.8	\$ 55.6	\$ 379.7	\$ 97.5

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11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employee Plan Assets (continued)

	At May 31, 2011			
	Total	Level 1	Level 2	Level 3
Common stocks:				
Large-mid cap	\$ 36.8	\$ 36.8	\$ -	\$ -
Small cap	19.4	19.4	-	-
Registered mutual funds:				
Equities - emerging markets	4.1	-	4.1	-
Fixed Income	71.9	-	71.9	-
Unregistered limited partnerships and limited liability companies:				
Equities:				
Emerging markets	11.8	-	11.8	-
International	9.5	-	9.5	-
Large-mid cap	47.3	-	47.3	-
Private equity	20.4	-	-	20.4
Other				
Event arbitrage	31.1	-	-	31.1
Long-short composite	23.1	-	12.2	10.9
Real estate	14.3	-	-	14.3
Money market accounts	6.0	6.0	-	-
Common collective trusts:				
Equities - international	12.5	-	12.5	-
Real assets related securities	27.6	-	27.6	-
103-12 Investment entities:				
Equities:				
International	50.5	-	50.5	-
Small cap	19.3	-	19.3	-
Fixed income	91.0	-	80.5	10.5
Other investments:				
Private equity	18.0	-	13.7	4.3
Long-short composite	.1	-	-	.1
Fixed income	10.5	-	-	10.5
Real assets related securities	1.0	-	-	1.0
Total	\$ 526.2	\$ 62.2	\$ 360.9	\$ 103.1

The tables on the following page set forth a summary of changes in the fair value of the Employee Plan's Level 3 investments.

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11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employee Plan Assets (continued)

	For the year ended May 31, 2012 (in millions)						May 31, 2012
	May 31, 2011	Purchases	Sales	Total net gains (losses) included in changes in net assets		Transfers in and/or out of level 3	
				Realized	Unrealized		
Unregistered limited partnerships and limited liability companies:							
Private equity	\$ 20.4	3.2	(6.8)	1.9	(1.1)	-	\$ 17.6
Other:							
Event arbitrage	31.1	.9	-	1.2	(2.0)	-	31.2
Long-short composite	10.9	(.1)	-	.6	(1.2)	-	10.2
Real estate	14.3	2.7	(2.2)	.4	.7	-	15.9
103-12 Investment entities:							
Fixed income	10.5	.9	(3.0)	(.5)	-	-	7.9
Other investments:							
Private equity	4.3	.1	(.8)	-	(.2)	-	3.4
Long-short composite	.1	-	-	-	-	-	.1
Fixed income	10.5	-	-	-	.1	-	10.6
Real assets related securities	1.0	.2	(.6)	-	-	-	.6
Total	<u>\$ 103.1</u>	<u>\$ 7.9</u>	<u>\$ (13.4)</u>	<u>\$ 3.6</u>	<u>\$ (3.7)</u>	<u>\$ -</u>	<u>\$ 97.5</u>

	For the year ended May 31, 2011 (in millions)						May 31, 2011
	May 31, 2010	Purchases, sales, issuances and settlements, net	Total net gains (losses) included in changes in net assets		Transfers in and/or out of level 3		
			Realized	Unrealized			
Unregistered limited partnerships and limited liability companies:							
Private equity	\$ 18.1	(1.0)	1.5	1.8	-	\$ 20.4	
Other:							
Event arbitrage	28.3	1.0	(.3)	2.1	-	31.1	
Long-short composite	9.3	(.4)	.9	1.1	-	10.9	
Real estate	10.3	1.7	.1	2.2	-	14.3	
103-12 Investment entities:							
Fixed income	9.1	.9	-	.5	-	10.5	
Other investments:							
Private equity	3.8	.1	-	.4	-	4.3	
Long-short composite	9.4	(9.1)	(.2)	-	-	.1	
Fixed income	9.9	-	-	.6	-	10.5	
Real assets related securities	1.1	(.1)	-	-	-	1.0	
Total	<u>\$ 99.3</u>	<u>\$ (6.9)</u>	<u>\$ 2.0</u>	<u>\$ 8.7</u>	<u>\$ -</u>	<u>\$ 103.1</u>	

There were no issuances and settlements for the years ended May 31, 2012 and 2011.

The total level 3 change in net unrealized (losses) gains for the years relating to those investments still held at May 31, 2012 and 2011 total \$(3.7) and \$8.7 million, respectively, and are included in net (depreciation) appreciation in fair value of investments in the Employee Plan's statement of changes in net assets available for benefits.

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12. BONDS AND NOTES PAYABLE

Bonds and notes payable at May 31 consist of the following (in millions):

	Series	Final Maturity	2012 Interest Rate	2012	2011
Miami-Dade County, Florida	2007A to				
Educational Facilities Authority	2008B	2015 to 2038	4.0% to 6.1%	\$ 733.9	\$ 751.8
Notes payable to banks and others	-	2013 to 2030	2.38% to 6.5%	38.2	37.0
Notes payable to banks and others	-	2013 to 2035	Variable	87.2	35.5
Par amount of bonds and notes payable				<u>859.3</u>	<u>824.3</u>
Net unamortized premium				19.3	21.0
Total				<u>\$ 878.6</u>	<u>\$ 845.3</u>

The annual maturities for bonds and notes payable at May 31, 2012 are as follows (in millions):

2013	\$ 99.1
2014	27.8
2015	26.0
2016	24.6
2017	25.0
Thereafter	656.8
Total	<u>\$ 859.3</u>

Effective December 31, 2010, the University renewed its line of credit arrangement which carries a maximum possible balance of \$150.0 million. This line of credit has a variable interest rate equal to the LIBOR Daily Floating Rate plus 0.65% per annum, and has a maturity date of December 31, 2012. The outstanding balance under this line of credit at May 31, 2012 was \$68.5 million.

In November 2011, the University borrowed \$10.0 million from a bank to fund the Employees' Retirement Plan. The loan has a fixed interest rate of 2.38% per annum, and has a maturity date of August 5, 2015. The outstanding balance at May 31, 2012 was \$10.0 million.

In July 2011, the University entered into a second line of credit arrangement for \$100.0 million, which was renewed in June 2012. This line of credit has a variable interest equal to the LIBOR rate for dollar deposits with a one-month maturity plus 0.75% per annum, and has a maturity date of June 29, 2013. There was no outstanding balance under this line of credit at May 31, 2012.

Total interest paid on all bonds and notes was \$41.7 and \$42.0 million for the years ended May 31, 2012 and 2011, respectively.

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13. NET ASSETS

Unrestricted net assets consist of the following at May 31 (in millions):	2012	2011
Designated for operations, programs, facilities expansion and student loans	\$ 73.4	\$ 126.4
Cumulative pension and postretirement benefits related changes other than net periodic benefit cost	(375.0)	(208.0)
Invested in plant facilities	784.8	749.3
Endowment and similar funds	303.8	364.0
Total unrestricted net assets	<u>\$ 787.0</u>	<u>\$ 1,031.7</u>

Temporarily restricted net assets consist of the following at May 31 (in millions):	2012	2011
Gifts for programs and facilities expansion	\$ 14.9	\$ 26.9
Contributions (pledges) and trusts	92.2	89.5
Life income and annuity funds	10.2	10.7
Endowment and similar funds	29.2	29.4
Total temporarily restricted net assets	<u>\$ 146.5</u>	<u>\$ 156.5</u>

Permanently restricted net assets consist of the following at May 31 (in millions):	2012	2011
Contributions (pledges) and trusts	\$ 53.9	\$ 58.9
Endowment and similar funds	345.7	326.5
Total permanently restricted net assets	<u>\$ 399.6</u>	<u>\$ 385.4</u>

14. GIFTS AND TRUSTS

The University's Advancement Office (Advancement) reports total gifts and trusts based on the Management Reporting Standards issued by the Council for Advancement and Support of Education (CASE). Gifts, trusts, and pledges (gifts and trusts) reported for financial statement purposes are recorded on the accrual basis.

The table below summarizes gifts and trusts received for the years ended May 31, 2012 and 2011, reported in the statements of activities as well as the CASE standards as reported by Advancement (in millions):

	2012	2011
Unrestricted gifts and trusts in support of programs	\$ 60.7	\$ 52.6
Unrestricted gifts and trusts for plant expansion	4.7	3.5
Temporarily restricted gifts and trusts for programs and plant expansion	32.2	37.7
Permanently restricted endowment gifts and trusts	11.7	11.4
Total gifts and trusts, per statements of activities	<u>109.3</u>	<u>105.2</u>
Increases (decreases) to reflect gifts and trusts per CASE standards:		
Pledges, net	(6.1)	2.6
Non-government grants, included in grants and contracts revenue	49.9	40.3
Differences in valuation/recording:		
Funds held in trust by others	(5.4)	4.5
Annuity	.3	.2
Timing	8.5	4.2
Gift-in-kind recorded under CASE standards only	7.4	6.4
Donations to supporting organizations recorded under CASE standards only	.6	8.7
Total gifts and trusts as reported by Advancement	<u>\$ 164.5</u>	<u>\$ 172.1</u>

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15. FUNCTIONAL EXPENSES

Operating expenses are reported in the statements of activities in natural categories. Functional expenses for fiscal 2012 and 2011 are shown below (in millions):

	2012	2011
Instruction	\$ 459.5	\$ 461.8
Research	233.1	229.5
Public service	154.2	157.5
Patient care	1,123.8	1,040.1
Auxiliary enterprises	143.1	145.0
Academic support	154.6	146.5
Student services	39.4	38.5
Institutional support	123.8	108.1
Total	<u>\$ 2,431.5</u>	<u>\$ 2,327.0</u>

Facilities related expenses have been allocated across applicable functional expense categories in the statements of activities based on space usage (in millions):

	2012	2011
Depreciation and amortization	\$ 124.8	\$ 125.6
Interest	38.0	39.1
Operations and maintenance	120.2	120.2
Total	<u>\$ 283.0</u>	<u>\$ 284.9</u>

16. COMMITMENTS AND CONTINGENCIES

The University had contractual obligations of approximately \$121.9 million at May 31, 2012 for various construction projects and purchases of equipment. The University has also entered into professional service agreements with Hospital Corporation of America, Inc. (HCA, Inc) and various HCA, Inc. affiliates. Future minimum commitments under these agreements range from \$3.1 to \$24.3 million per year over the next six years, totaling \$91.2 million.

In February 2008, the University entered into a five year Innovation Incentive Funding Agreement with the State of Florida (the State), Office of Tourism, Trade and Economic Development. The agreement created the Miami Institute for Human Genomics, now known as the John P. Hussman Institute for Human Genomics (the Institute) and a program and infrastructure that supports and benefits its operations. The agreement calls for the State to fund \$80.0 million with a University pledge for \$100.0 million towards the financial support of the Institute. At May 31, 2012, the University has received \$59.6 million from the State and has spent \$70.2 million in matching funds.

The University, in its normal operations, is a defendant in various legal actions. Additionally, amounts received and expended under various federal and state programs are subject to audit by governmental agencies. Management is of the opinion that the outcome of these matters would not have a material effect on the University's financial position or results of operations.

In March 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid for. Given that the final regulations and interpretive guidelines have yet to be published, the University is unable to fully predict the impact of PPACA on its operations and financial results. Management of the University is studying and evaluating the anticipated impacts and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement.

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16. COMMITMENTS AND CONTINGENCIES (Continued)

The University leases certain real property. These leases are classified as operating leases and have lease terms ranging up to seventy five years. Total lease expense for the years ended May 31, 2012 and 2011 was \$28.7 and \$24.1 million, respectively. Future minimum lease payments under noncancelable operating leases at May 31, 2012 are as follows (in millions):

2013	\$	9.9
2014		9.1
2015		7.2
2016		7.0
2017		5.4
Thereafter		170.1
Total	\$	<u>208.7</u>