

An abstract graphic consisting of numerous thin, overlapping, curved lines that create a sense of depth and movement. The lines are arranged in a way that suggests a three-dimensional, flowing shape, possibly representing a stylized letter or a dynamic form. The lines are black on a white background.

Report of Independent Auditors and
Consolidated Financial Statements
with Federal Awards Supplemental Information

Alliant International University
and Affiliate

June 30, 2011 and 2010

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
 Alliant International University and Affiliate

We have audited the accompanying consolidated statements of financial position of Alliant International University and Affiliate (the "University") as of June 30, 2011 and 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2011 and 2010, 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 October 3, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 compliance and the results of that testing, and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming opinions on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Moss Adams LLP

San Francisco, California
 October 3, 2011

CONSOLIDATED FINANCIAL STATEMENTS

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	June 30, 2011		June 30, 2010		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
ASSETS					
Cash and cash equivalents	\$ 8,827,667	\$ 564,505	\$ -	\$ 9,392,172	\$ 6,453,342
Investments	8,802,815	2,974,699	1,316,593	13,094,107	10,985,680
Accounts and loans receivable					
Tuition	1,866,705	118,360	-	1,985,065	2,725,795
Student loans	11,820,116	-	-	11,820,116	12,768,178
Other	1,789,575	-	-	1,789,575	1,865,501
Allowance for doubtful accounts	(1,164,826)	(23,992)	-	(1,188,818)	(1,347,908)
Pledges receivable, net	-	1,895,883	-	1,895,883	1,715,199
Prepaid and other assets	-	-	-	-	-
Property, plant and equipment	1,794,871	-	-	1,794,871	1,036,696
Land	43,394,360	1,450,000	-	44,844,360	43,394,360
Buildings and improvements	18,380,201	2,629,361	-	21,009,562	17,700,366
Books, furnishings, equipment and other	13,258,544	162,907	-	13,421,451	12,839,699
Accumulated depreciation and amortization	(18,162,021)	(614,818)	-	(18,776,839)	(16,742,552)
Property, plant and equipment, net	56,871,084	3,627,450	-	60,498,534	57,191,873
Total assets	\$ 90,608,007	\$ 9,156,905	\$ 1,316,593	\$ 101,081,505	\$ 93,394,356
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 186,213	\$ 5,651	\$ -	\$ 191,864	\$ 1,199,101
Accrued payroll and benefits	5,864,399	45,423	-	5,909,822	5,376,438
Accrued expenses and other liabilities	4,298,877	21,799	-	4,320,676	3,830,379
Deferred tuition and other deferred income	4,920,709	-	-	4,920,709	4,480,696
Deferred gain on sale of real estate	4,050,123	-	-	4,050,123	5,265,161
Notes payable	17,000,000	-	-	17,000,000	17,000,000
U.S. Government loans potentially refundable	9,054,401	-	-	9,054,401	9,279,109
Total liabilities	45,374,722	72,873	-	45,447,595	46,430,884
Commitments and contingencies					
Net assets					
Unrestricted	45,181,211	-	-	45,181,211	42,443,997
Undesignated	52,074	-	-	52,074	182,240
Foreign currency translation					
Total unrestricted net assets	45,233,285	-	-	45,233,285	42,626,237
Temporarily restricted net assets		9,084,032	-	9,084,032	3,354,123
Permanently restricted net assets		-	1,316,593	1,316,593	983,112
Total net assets	45,233,285	9,084,032	1,316,593	55,633,910	46,963,472
Total liabilities and net assets	\$ 90,608,007	\$ 9,156,905	\$ 1,316,593	\$ 101,081,505	\$ 93,394,356

The accompanying notes are an integral part of this schedule.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	Year ended June 30, 2011		Year ended June 30, 2010		Total
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Permanently Restricted	
REVENUE, GAINS AND OTHER SUPPORT					
Tuition and fees	\$ 74,356,025	\$ 1,000,640	\$ 70,588,361	\$ -	\$ 70,588,361
Institutional student aid	(2,857,467)	(6,150)	(3,320,910)	-	(3,320,910)
Net tuition and fees	71,498,558	994,490	67,267,451	-	67,267,451
Auxiliary services	2,050,116	908	1,973,473	-	1,973,473
Contributions	231,066	749,976	274,470	3,856	610,238
Service revenues	2,297,861	-	2,658,553	-	2,658,553
Contracts and grants	2,356,271	-	2,705,786	-	2,705,786
Investment and other income	150,625	348,006	292,094	2,554	337,795
Other, net	740,741	1,174	756,853	-	756,853
Realized gain on sale of property	1,215,037	-	1,215,037	-	1,215,037
Net assets released from restriction	1,845,687	(1,845,687)	566,115	-	-
Total revenue, gains and other support	82,385,962	248,867	77,709,832	(191,056)	77,525,186
OPERATING EXPENSES					
Instruction	34,270,073	-	32,388,377	-	32,388,377
Academic support	14,458,473	-	13,312,973	-	13,312,973
Student services	7,140,724	-	6,684,973	-	6,684,973
Institutional support	13,122,361	-	12,247,703	-	12,247,703
Public service	5,488,832	-	5,440,571	-	5,440,571
Research	843,797	-	870,141	-	870,141
Scholarships and fellowships	234,359	-	673,332	-	673,332
Auxiliary services	4,096,259	-	3,981,776	-	3,981,776
Total operating expenses	79,654,878	-	75,599,846	-	75,599,846
Increase (decrease) in net assets from operating activities	2,731,084	248,867	2,109,986	(191,056)	1,925,340
OTHER CHANGES IN OPERATING ACTIVITIES					
Income taxes related to foreign affiliates	(33,342)	-	(94,302)	-	(94,302)
Foreign currency exchange gain (loss)	39,472	-	25,976	-	25,976
Foreign currency translation adjustment	(130,166)	-	(41,691)	-	(41,691)
Change in fair value of interest rate swap	-	-	48,741	-	48,741
Acquisition-Inherent Contribution	-	5,481,042	-	-	-
Change in net assets	2,607,048	5,729,909	2,048,710	(191,056)	1,864,064
NET ASSETS, beginning of year	42,626,237	3,354,123	40,577,527	976,702	45,099,408
NET ASSETS, end of year	\$ 45,233,285	\$ 9,084,032	\$ 42,626,237	\$ 3,354,123	\$ 46,963,472

The accompanying notes are an integral part of this schedule.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,670,438	\$ 1,864,064
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,506,807	1,466,040
Contributions restricted for long-term investment	(37,260)	(3,856)
Realized gain on sale of property	(1,215,037)	(1,215,037)
Changes in fair value of interest rate swaps	-	(48,741)
Allowance for doubtful accounts	(183,082)	229,758
Acquisition-inherent contribution	(5,774,121)	-
Changes in:		
Tuition receivable	832,233	578,379
Other receivables	75,927	(257,378)
Changes in pledges receivable	(180,685)	513,368
Prepaid and other assets	(750,860)	(33,786)
Accounts payable	(1,010,782)	(141,978)
Accrued payroll and benefits	526,913	736,761
Accrued expenses and other liabilities	(520,575)	(130,956)
Deferred tuition and other deferred income	440,013	405,349
Net cash from operating activities	<u>2,379,929</u>	<u>3,961,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(1,105,583)	(603,922)
Student loans	948,062	1,102,253
Purchase of investments	634,531	305,044
Cash acquired with merger with SFLS	269,339	-
Net cash from investing activities	<u>746,349</u>	<u>803,375</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to long-term investments	37,260	3,856
Line of credit	-	(2,000,000)
Notes payable	-	3,000,000
U.S. government loans potentially refundable	(224,708)	(340,869)
Net cash from (used in) financing activities	<u>(187,448)</u>	<u>662,987</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,938,830	5,428,349
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,453,342</u>	<u>1,024,993</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,392,172</u>	<u>\$ 6,453,342</u>

The accompanying notes are an integral part of this schedule.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

Supplemental Cash Flow Information:

Assets and Liabilities acquired in merger of SFLS:

Current assets	\$ 1,790,596
Marketable Securities, non-current	296,524
Property and Equipment	3,707,886
Less current liabilities	<u>(20,885)</u>
Net assets acquired	5,774,121
Acquisition cost	-
Contribution inherent in merger	<u>\$ 5,774,121</u>

The accompanying notes are an integral part of this schedule.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - ORGANIZATION

Alliant International University (the "University") is a nonprofit corporation organized under the laws of the State of California. The University was formed in July 2001 when the California School of Professional Psychology was combined with the United States International University to form the California School of Professional Psychology (dba Alliant International University). On September 16, 2003, the California School of Professional Psychology was officially renamed to Alliant International University. The University is an independent school with domestic campuses located in San Francisco, Fresno, Los Angeles, Irvine, Sacramento and San Diego, California. The President's office is located in San Francisco. The University offers a variety of academic programs leading to bachelor, masters and doctoral degrees in psychology, business, education and various other disciplines. Funding sources generally include tuition and fees charged to students and gifts, grants and contracts.

The affiliation agreement with Colegio de Ade S.C. ended on October 28, 2010. A Mexican civil partnership, Alliant Mexico, was formed on October 14, 2010, to offer the University's accredited program in Mexico City. The University owns 95% of Alliant Mexico and the remaining 5% of Alliant Mexico is owned by a Mexican national and Alliant Mexico's managing partner. Pursuant to Mexican law and Alliant Mexico's by-laws, the University has control over Alliant Mexico to implement its administrative and academic policies and guidelines in Mexico City and has control over the quality of educational services provided.

The University offers an international masters program in Tokyo, Japan. This program is part of the University and is a separate entity. On July 1, 2010, Alliant Kyoiku Support Services GK ("Alliant GK") was formed to manage and support the provision of educational curriculum and classes developed by the University in Japan. The University is the managing member.

The University has a collaborative agreement with City University of Hong Kong to deliver the Doctor of Psychology degree as conferred by The University's California School of Professional Psychology.

The University is affiliated with the Alliant University Foundation, formerly named the CSPP Research and Service Foundation (the "Foundation"). The Foundation was formed as a non-profit organization to develop and conduct programs which bring psychology and related disciplines to bear on the problems of contemporary society and in so doing generate revenues for the University. Currently, the Foundation is not active.

The University's mission is to prepare students for professional careers of service and leadership and the application of knowledge to improve the lives of people in diverse cultures and communities around the world.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The consolidated financial statements of the University include the accounts of the Universidad Internacional de Mexico, A.C. ("UIM"), the Foundation, Alliant Mexico, and Alliant GK. All intercompany balances and transactions have been eliminated in the consolidation. The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Net assets – Under accounting principles applicable to not-for-profit organizations, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions, unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or otherwise limited by contractual arrangements with outside parties.

Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of the University pursuant to those specific restrictions and/or expire with the passage of time. Temporarily restricted net assets at June 30, 2011 and 2010 relate primarily to scholarships which have yet to be granted and assets acquired from merger.

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions requiring the University to maintain the assets permanently. Such assets consist of the University's endowment funds.

Revenues and expenses – Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets as the donor stipulated purposes are fulfilled and/or the stipulated time period elapses.

Contributions – Contributions, which may include unconditional promises to give (“pledges”), are recognized as revenues in the period received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as reclassifications from temporarily restricted to unrestricted net assets. Contributions receivable are recognized at fair value based on the present value of their estimated future cash flows. The discounts on these amounts are computed using rates applicable in the years in which those promises are received. The discount rate is determined using the risk free rate adjusted for the risk of donor default. Amortization of the discounts is included in contribution revenue in the accompanying statement of activities and changes in net assets. Grants and contributions receivable are reviewed for collectability and reserves for uncollectible amounts are established when needed.

Income taxes – The University is a nonprofit organization. The University qualifies for exemption from income taxation under Section 501(c)(3) of the Internal Revenue Code in accordance with an IRS letter of determination dated January 21, 2004. The University is also exempt from taxation under corresponding sections of the California Revenue and Taxation code. Accordingly no provision for income taxes has been made. The programs in Mexico and Japan are taxable in the respective countries and accordingly, estimates have been recorded in the consolidated financial statements.

The University recognizes and measures tax benefits taken or expected to be taken in an unrelated business activity tax return and discloses any uncertainties in tax positions.

ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of estimates – The preparation of financial statements in conformity 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. The most significant estimates relate to allowances for doubtful accounts, the fair value of certain assets and liabilities, the collectability of pledges, and allocation of certain expenses to functional expense categories. Actual results could differ from these estimates.

Cash and cash equivalents – Included in cash and cash equivalents are investments with original maturities at the time of purchase of three months or less. These investments are carried at fair value. Substantially all cash and cash equivalents are held in nationally recognized financial institutions and balances may at times exceed federally insured limits. Cash and cash equivalent amounts held for investment purposes are classified as investments. Cash paid for interest amounted to \$446,288 in 2011 and \$416,009 in 2010.

Accounts and student loans receivable – Accounts and student loans receivable are carried at cost, less an allowance for doubtful accounts. Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

Pledges receivable – Unconditional promises to give are included in the financial statements as pledges receivable and are classified as temporarily restricted or permanently restricted, depending upon donor requirements. Conditional promises, which depend on the occurrence of a specified future and uncertain event, such as matching gifts from other donors, are recognized when the conditions are substantially met. Pledges receivable are recorded at the present value of the discounted cash flows, net of allowances for collectability.

Investments – Investments are stated at fair value. Investments include term deposits. Term deposits that mature in 90 days or less at purchase are accounted for as cash equivalents. Certain cash and cash equivalents are classified as investments since these have been Board designated as such.

Property, plant and equipment – Purchased assets are recorded at cost; donated assets are recorded at estimated fair value at the date of the gift. Depreciation is charged to expense on the straight-line basis over the estimated useful lives of buildings (40 years) and equipment, library books, software, furniture, and donated assets (3-15 years). Leasehold improvements are depreciated over the useful life or the remaining term of the property lease, whichever is shorter.

Land is regarded as a non-depreciable asset, therefore no depreciation is charged. Total depreciation and amortization expense was \$1,506,807 for the year ended June 30, 2011 and \$1,466,040 for the year ended June 30, 2010. Maintenance and repairs are charged to expense as incurred.

When items are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any profit or loss on such retirement or disposal is recognized in the year of disposal.

At June 30, 2011 and 2010, fully depreciated assets of approximately \$11,547,000 and \$9,934,000, respectively, were still in use.

Foreign currency translation – Assets and liabilities of foreign operations are translated at fiscal year end rates of exchange and the activity within net assets is translated at the average rates of exchange for the fiscal year. Gains or losses resulting from translating foreign currency financial statements and foreign currency denominated assets and liabilities are recorded in the statement of activities and changes in net assets and are accumulated as a separate component of unrestricted net assets.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Tuition and fee revenue – Tuition and fees are reflected net of financial aid provided in the form of institutional scholarships. Institutional scholarships are awarded as grants to students, which results in lower net tuition payments by those students. Revenues are recorded, on a pro rata basis, in the period during which academic services are provided. Tuition and fees received in the current fiscal year that are applicable to academic periods in a subsequent fiscal year are reflected as deferred revenues.

Grants and contracts – Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. Certain grants and contracts provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with the University's federal oversight agency.

Operating and nonoperating classifications – The University differentiates its operating activities through the use of increase in net assets from operating activities as an intermediate measure of operations. For purposes of display, foreign currency adjustments, acquisitions from the merger, and changes in fair value of interest rate swaps are reported as nonoperating activities in the statement of activities and changes in net assets.

Advertising costs – Advertising costs are expensed as advertisement occurs. Total advertising costs were approximately \$448,000 and \$540,000 for the years ended June 30, 2011 and 2010, respectively.

Fundraising expenses – Fundraising costs are expensed as incurred. Total fundraising costs approximated \$72,000 and \$307,500 for the years ended June 30, 2011 and 2010, respectively, and are included in Institutional Support.

Functional allocation of expenses – Expenses that relate to two or more programs or support activities are allocated based upon the programs' or support activities' direct, or proportionate percentage of, total expenses.

Fair value of financial instruments – The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, approximate fair value because of the short-term maturity of these financial instruments. The fair value of investments is discussed in Note 4. The carrying value of the University's note payable and line of credit approximates fair value because interest rates reflect current market rates offered by lending institutions for loans with similar terms to organizations with comparable credit risk.

Fair value measurements – In accordance with Generally Accepted Accounting Principles ("GAAP"), the University defines fair value as 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 and establishes a framework for measuring fair value. The University discloses those instruments measured at fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

Uniform Prudent Management of Institutional Funds Act (UPMIFA) – The UPMIFA (the "Act") was adopted by California, effective January 1, 2009 and is codified as Sections 18501-18510 of the California Code. The Act includes a definition of "Endowment" and specifies requirements related to the management and investment of endowment funds, including diversity of investments and factors that charities must take into account in making investment decisions. The University believes it is in compliance with requirements of the Act.

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Subsequent events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are available to be issued. The University recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose before consolidated financial statements are available to be issued. The University has performed an evaluation of subsequent events through October 3, 2011, which is the date the consolidated financial statements were available to be issued.

NOTE 3 - PLEDGES RECEIVABLE

	June 30	
	2011	2010
Amount of pledges receivable:		
In one year or less	\$ 775,446	\$ 531,508
Between one year and five years	1,200,000	1,156,000
In more than five years	180,000	340,000
Less discount/allowance	(259,563)	(312,309)
	<u>\$ 1,895,883</u>	<u>\$ 1,715,199</u>

The purpose of these pledges includes endowed scholarships and University operations. Of the total pledges receivable at June 30, 2011, \$9,913 was due from related parties.

NOTE 4 - INVESTMENTS

Investments at June 30, 2011 and 2010 are as follows:

	June 30	
	2011	2010
Money market funds	\$ 10,014,912	\$ 10,985,680
Certificates of deposit	1,000,000	-
Intermediate term bond fund	707,915	-
U.S. equities	739,272	-
International mutual fund	632,008	-
	<u>\$ 13,094,107</u>	<u>\$ 10,985,680</u>
Investment returns for the year ended June 30, are as follows:		
Interest and dividend income	<u>\$ 143,532</u>	<u>\$ 64,796</u>

**ALLIANT INTERNATIONAL UNIVERSITY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table summarizes the fair value hierarchy levels of the University's investments at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Money market accounts	\$ 10,014,912	\$ -	\$ -	\$ 10,014,912
Certificates of deposit	-	1,000,000	-	1,000,000
Intermediate term bond fund	707,915	-	-	707,915
U.S. equities	739,272	-	-	739,272
International mutual fund	632,008	-	-	632,008
Fair value at June 30, 2011	<u>\$ 12,094,107</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 13,094,107</u>

The following table summarizes the fair value hierarchy levels of the University's investments at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Money market accounts	\$ 10,985,680	\$ -	\$ -	\$ 10,985,680
Fair value at June 30, 2010	<u>\$ 10,985,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,985,680</u>

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 5 – INTEREST RATE SWAPS

At June 30, 2009, the University had one swap agreement which fixed its interest rate at 2.75% for the \$14,000,000 Note Payable and this agreement expired on April 16, 2010. The University has not entered into any swap agreements since then and there were no swap agreements in effect as of June 30, 2010. The change in fair value for the year ended June 30, 2010 of \$48,741 was recorded in nonoperating activities in the statement of activities and changes in net assets.

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NOTE 6 - NOTES PAYABLE

On April 16, 2007, the University entered into a \$14,000,000 promissory note with Union Bank for the purchase of certain land in San Diego. This interest only loan matured on April 16, 2010 and was unilaterally extended by the Lender to July 16, 2010. On June 18, 2010, the loan agreement was amended and recorded to reflect a \$17,000,000 promissory note and a revised maturity date of April 16, 2013. The interest on this loan is payable in arrears and based on the LIBOR rate plus 1.75% until June 17, 2010 and based on LIBOR rate plus 2.25% thereafter. The note is collateralized by a Deed of Trust on certain property and assets of the University. In accordance with the note agreement, the University must comply with various financial and nonfinancial covenants.

NOTE 7 - LINE OF CREDIT

Alliant has a revolving line of credit of \$3,000,000 that matures on December 1, 2011. The interest rate incurred is at the LIBOR rate plus 2.25%. The University can borrow, repay and re-borrow all or part of the revolving loan in accordance with the terms of the agreement provided that for at least thirty consecutive days during each of the two six month periods in the fiscal year, the principal amount outstanding under the revolving loan must be zero. At June 30, 2009, the bank issued for the University, a \$600,000 stand-by letter of credit. This security deposit remained unchanged at June 30, 2011.

The University had no outstanding balance at June 30, 2011 and 2010, respectively, under this revolving loan agreement. In accordance with the revolving loan agreement, the University must comply with various financial and nonfinancial covenants.

NOTE 8 - U.S. GOVERNMENT LOANS POTENTIALLY REFUNDABLE

The U.S. Government loans potentially refundable consist of the federal portion of loans to students through the federal Perkins Loan Program. The principal sources of such loans are federal government contributions, matching institutional contributions, and repayments of principal and interest which are subsequently used for additional loans. If the program is canceled, federal contributions may be reimbursable to the U.S. Government.

NOTE 9 - LEASES

Operating leases - The University's commitments under noncancelable operating leases, primarily for campus facilities, are as follows:

Year Ending June 30

2012	\$ 4,484,327
2013	4,305,727
2014	4,310,051
2015	3,341,553
2016	2,853,081
Thereafter	4,056,396
	<u>\$ 23,351,135</u>

The University's rent expense under these operating leases amounted to approximately \$5,081,036 and \$4,799,000 for the years ended June 30, 2011 and 2010, respectively. On August 29, 2011, the University exercised the option to extend the lease for the San Francisco campus at One Beach.

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Equipment lease agreement – Alliant entered into an equipment lease agreement with U.S. Bancorp Equipment Finance, Inc. – Technology Finance Group on March 3, 2011. The lease covers certain personal property as well as the financing of licensed software and/or services up to an amount of \$1,000,000. Technology and furniture leases will begin with the execution of the Acceptance Certificate (known as "Installation Date). For the period from Installation Date to Commencement Date (known as "Installation Period"), billing will equal, but not exceed 1.5 months times the cost of the equipment installed and accepted times the appropriate lease rate factor. The lease rate will be floating until the lease Commencement date at which time the rate will become fixed for the duration of the term. The lease rate factor will be adjusted at the conclusion of the installation period by adding .000045 to the lease rate factor for every .01 basis points increase in the like term Swap Benchmark Rates as published in the H.15 Federal Reserve Statistical release as published on October 25, 2010. The lease term will consist of thirty-six (36) months commencing on the first day immediately following the Installation Period. As of June 30, 2011, no selection, installation or acceptance of property had been made.

NOTE 10 – RETIREMENT PLANS

The University employees in the United States may, at their option, participate in the Teachers' Insurance and Annuity Association/College Retirement Equities Fund. Contributions are made to the plan through employee payroll deductions and a contribution by the University of 7.5% of the employee's gross wages. Under this defined contribution plan, University and participant contributions are used to purchase individual, fixed and/or variable annuities. Employees are eligible for the University contribution after the completion of two years of service with the University. Benefits commence upon retirement, and pre-retirement survivor death benefits are provided. Total contributions by the University to the Plan for the years ended June 30, 2011 and 2010 were approximately \$2,466,842 and \$2,077,000, respectively.

NOTE 11 – SALES OF LAND, BUILDINGS AND IMPROVEMENTS

ONE BEACH STREET

In 2003, the University executed a lease agreement (with a purchase option) with No.1 Beach Street LLC ("No. 1 Beach") for 57% of certain space in a building in San Francisco for its corporate headquarters and teaching space.

In fiscal year 2008, the University executed its purchase option and purchased the property. The purchase price under the option was \$18,200,000. The University immediately entered into a sale agreement to sell the property to SIC-No.1 Beach for \$27,500,000 which simultaneously executed a lease with the University for the same amount of space it had been leasing from No.1 Beach. The gain on sale of the property, including any deferred rent credits, was deferred and is being recognized over the life of the lease.

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The University recognized a gain of \$1,215,037 and \$1,215,037 on this transaction for the years ended June 30, 2011 and 2010, respectively. The remaining deferred gain of \$4,050,123 will be recognized over the remaining 3.5 years as follows:

Year Ending June 30

2012	\$ 1,215,037
2013	1,215,037
2014	1,215,037
2015	405,012
	<u>\$ 4,050,123</u>

SAN DIEGO CAMPUS AND UNIMPROVED LAND

The University owns property in San Diego, California, consisting of its San Diego campus property and certain adjacent unimproved land. During the year ended June 30, 2011 and in August 2011, the University has entered into two separate agreements to sell its San Diego property as described below. While the exact amount of the sales prices remain to be determined, management believes it will incur no loss in connection with these transactions.

On September 13, 2010, the University entered into an agreement for the sale of the undeveloped land adjacent to the San Diego campus property. The sale is subject to certain terms and conditions, including achieving entitlements and permits that would allow the buyer to develop the property for a use other than that authorized under the existing entitlements. It is expected to take up to three years from the date of the agreement for the terms and conditions to be resolved. Upon satisfaction of the conditions, the University will receive the sale proceeds and the grant deed will be recorded in the official records of the San Diego County, California Recorder's Office, which will be the effective date of the sale.

On August 4, 2011, the University entered into an agreement for the sale of the San Diego campus property. The sale agreement includes a provision for the University to lease the campus property through June 30, 2013 which will give the University time to transition to alternate campus facilities. While the sale is subject to certain terms and conditions, management believes the terms and conditions can be resolved within a year from June 30, 2011.

The San Diego real estate assets under sales agreements, at net carrying value as of June 30, 2011, consisted of:

Land	\$ 43,394,360
Buildings	7,965,908
Land and building improvements	3,997,944
Total	<u>\$ 55,358,212</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Litigation

Occasionally, the University is involved in lawsuits and claims arising in the ordinary course of its operations. While the ultimate liabilities cannot now be determined due to uncertainties that exist, management believes the ultimate resolution of these lawsuits and claims will not have a material effect on the University's financial position.

Federal Grants

Certain federal grants, including financial aid which the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time. However, management believes that such amounts, if any, would be immaterial to the financial statements.

NOTE 13 – SAN FRANCISCO LAW SCHOOL

On June 23, 2009, the University entered into an agreement and plan of merger (the "Agreement") with the San Francisco Law School ("SFLS"), a California nonprofit public benefit corporation, with members, located in San Francisco, California, wherein SFLS would be merged into Alliant. The University's and SFLS' governing bodies have determined that such a merger will best serve their student bodies and the community by combining the resources and talents of both institutions to further enhance the missions of both institutions and to create new opportunities in teaching, scholarship and service. In addition, the merger will materially benefit SFLS with respect to accreditation from the Western Association of Schools and Colleges, approval from the State Bar of California and approval by the Federal Department of Education for Title IV programs ("Financial Aid"). Upon satisfactory certification and completion of certain conditions, the Agreement was filed with the California Secretary of State on July 1, 2010, which is the effective date ("Effective Date") of the Merger.

As of the Effective Date, SFLS was merged with and into the University, and the separate corporate existence of SFLS was ceased. The corporate identity, existence, purposes, rights and immunities of SFLS were merged into and vested in the University. The memberships of each of the members of SFLS were canceled on the Effective Date without consideration and the corporate identity, existence, name, purposes, powers, rights and immunities of the University continue unaffected and unimpaired by the Agreement.

In accordance with GAAP, the University recorded in its consolidated financial statements, the fair value of identifiable assets acquired and liabilities assumed as of the Effective Date. The results of operations from continuance of the law school previously owned by SFLS (the "Law School") is included in the University's consolidated financial statements beginning as of the Effective Date. The excess of the identifiable assets acquired over liabilities assumed was recognized as an inherent contribution in the University's Consolidated Statement of Activities. The acquisition costs associated with this merger were immaterial to the University's consolidated financial statements.

To the extent that SFLS' assets were subject to donor restrictions, those restrictions carried over and will be honored by the University. In addition, the terms of the Agreement provided that all assets and real property of SFLS transferred to the University will be held as restricted assets for the benefit of the Law School. Accordingly, the net assets acquired in the merger are included in either temporarily restricted or permanently restricted net assets in the University's consolidated financial statements. The restriction on the use of assets acquired in the merger included the provision that all profits, interest earned, or proceeds from sale will inure to the respective net asset categories.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Effective Date:

Current assets	\$ 1,790,596
Marketable securities, non-current	296,524
Property and equipment	3,707,886
Less current liabilities	<u>(20,885)</u>
Net assets acquired	5,774,121
Acquisition cost	<u>-</u>
Inherent contribution	<u>\$ 5,774,121</u>

Of the net assets acquired in the merger, \$5,481,042 were recorded at the Effective Date as temporarily restricted and \$293,079 were recorded as permanently restricted net assets.

The estimated fair value of the identifiable assets acquired and liabilities assumed in the merger were determined by the University's management based on Level 1 inputs as to marketable securities and Level 3 inputs for other assets and liabilities based on various market analyses and a recent asset appraisal. The estimated fair values substantially approximate the book values recorded by SFLS with the exception of the certain real property located in San Francisco, California. The University determined the fair value of this real property exceeded book value by \$3,384,608. The inherent contribution of \$5,774,121 was recorded as contribution income during the year ended June 30, 2011.

