Consolidated Financial Statements and Report of Independent Certified Public Accountants

Abilene Christian University

May 31, 2008 and 2007

Grant Thornton

Report of Independent Certified Public Accountants

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Board of Trustees
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We have audited the accompanying consolidated statements of financial position of Abilene Christian University (the University) and subsidiaries as of May 31, 2008 and 2007, and the related consolidated 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 as established by the American Institute of Certified Public Accountants. 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 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 Abilene Christian University and subsidiaries as of May 31, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Dallas, Texas
August 15, 2008

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2008 and 2007

ASSETS	2008	2007
Cash and cash equivalents	$ -	$ 2,823,933
Accounts and notes receivable, net	8,810,028	8,740,944
Contributions receivable, net	3,937,786	5,900,060
Inventories	2,943,563	3,019,628
Prepaid expenses and other assets	1,676,849	1,029,273
Investments, at fair value	262,747,576	255,293,541
Charitable trusts and annuities	47,379,062	47,750,168
Property and equipment, net	120,632,522	109,721,264
Total assets	$448,127,386	$434,278,811
LIABILITIES AND NET ASSETS		
Accounts payable	$ 2,751,122	$ 1,448,481
Accrued interest payable	305,322	324,831
Accrued salaries and benefit expenses	9,126,200	11,413,074
Net advances on lines of credit	12,288,411	7,000,000
Deposits and other liabilities	9,792,183	15,437,082
Reserve for charitable trusts and annuities	27,330,907	27,819,330
Long-term obligations	49,337,660	50,671,466
Total liabilities	110,931,805	114,114,264
Commitments and contingencies		
Net assets		
Unrestricted	180,478,291	168,289,231
Temporarily restricted	9,754,536	8,483,183
Permanently restricted	146,962,754	143,392,133
Total net assets	337,195,581	320,164,547
Total liabilities and net assets	$448,127,386	$434,278,811

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues, gains, and other support				
Tuition and fees	$ 71,051,792	$ -	$ -	$ 71,051,792
Less scholarship allowances	(25,413,344)	-	-	(25,413,344)
Net tuition and fees	45,638,448	-	-	45,638,448
Auxiliary enterprises sales and services	18,933,047	-	-	18,933,047
Private gifts and grants	1,013,598	4,770,760	-	5,784,358
Endowment support	12,622,737	-	-	12,622,737
Government grants and contracts	6,732,959	-	-	6,732,959
Other revenue	5,155,685	-	-	5,155,685
Net assets released from restrictions	3,310,109	(3,310,109)	-	-
Total revenues, gains, and other support	93,406,583	1,460,651	-	94,867,234
Expenses				
Operating expenses:				
Instruction and research	30,338,095	-	-	30,338,095
Academic support	7,952,770	-	-	7,952,770
Student services	8,898,535	-	-	8,898,535
Public services	2,634,479	-	-	2,634,479
Expenses of auxiliary enterprises	24,623,842	-	-	24,623,842
Fundraising	2,406,383	-	-	2,406,383
Management and general	18,413,233	-	-	18,413,233
Total operating expenses	95,267,337	-	-	95,267,337
Increase (decrease) in net assets from operating activities	(1,860,754)	1,460,651	-	(400,103)
Non-operating:				
Contributions for endowment, plant, and other	378,719	5,624,176	2,969,834	8,972,729
Investment return, net of amount designated for operations	4,281,737	2,719	211,289	4,495,745
Other revenues (Note Q)	5,085,005	-	-	5,085,005
Net assets released from endowment, plant and other	5,725,397	(5,725,397)	-	-
Expenses for endowment, plant, and other	(1,431,777)	-	-	(1,431,777)
Changes in value of split-interest agreements	10,733	(90,796)	389,498	309,435
Net non-operating revenues, expenses, and other changes	14,049,814	(189,298)	3,570,621	17,431,137
Total change in net assets	12,189,060	1,271,353	3,570,621	17,031,034
Net assets at beginning of year	168,289,231	8,483,183	143,392,133	320,164,547
Net assets at end of year	$180,478,291	$ 9,754,536	$146,962,754	$337,195,581

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2007

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues, gains, and other support				
Tuition and fees	$ 67,495,558	$ -	$ -	$ 67,495,558
Less scholarship allowances	(23,734,653)	-	-	(23,734,653)
Net tuition and fees	43,760,905	-	-	43,760,905
Auxiliary enterprises sales and services	18,207,057	-	-	18,207,057
Private gifts and grants	1,059,826	4,477,073	-	5,536,899
Endowment support	12,509,397	-	-	12,509,397
Government grants and contracts	7,201,454	-	-	7,201,454
Other revenue	5,429,098	73,702	-	5,502,800
Net assets released from restrictions	4,621,663	(4,621,663)	-	-
Total revenues, gains, and other support	92,789,400	(70,888)	-	92,718,512
Expenses				
Operating expenses:				
Instruction and research	28,844,050	-	-	28,844,050
Academic support	7,668,045	-	-	7,668,045
Student services	8,842,161	-	-	8,842,161
Public services	2,580,693	-	-	2,580,693
Expenses of auxiliary enterprises	23,406,274	-	-	23,406,274
Fundraising	2,964,067	-	-	2,964,067
Management and general	16,590,137	-	-	16,590,137
Total operating expenses	90,895,427	-	-	90,895,427
Increase (decrease) in net assets from operating activities	1,893,973	(70,888)	-	1,823,085
Non-operating:				
Contributions for endowment, plant, and other	2,345,835	2,851,720	6,502,789	11,700,344
Investment return, net of amount designated for operations	34,853,764	374,446	476,750	35,704,960
Other revenues	2,419,895	6,719	-	2,426,614
Net assets released from endowment, plant and other	2,642,188	(2,642,188)	-	-
Expenses for endowment, plant, and other	(1,354,010)	-	-	(1,354,010)
Changes in value of split-interest agreements	130,238	174,060	4,053,888	4,358,186
Net non-operating revenues, expenses, and other changes	41,037,910	764,757	11,033,427	52,836,094
Total change in net assets	42,931,883	693,869	11,033,427	54,659,179
Net assets at beginning of year	125,357,348	7,789,314	132,358,706	265,505,368
Net assets at end of year	$168,289,231	$ 8,483,183	$143,392,133	$320,164,547

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ 17,031,034	$ 54,659,179
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,560,733	6,172,879
Accretion of asset retirement obligations	114,314	382,510
Depletion of mineral interests	-	839,149
(Gain) loss on sale of equipment	(45,793)	85,210
(Increase) decrease in:		
Accounts and notes receivable	(168,456)	(191,845)
Contributions receivable	1,962,274	(1,139,859)
Inventories	76,065	(214,596)
Prepaid expenses and other assets	(647,576)	451,383
Increase (decrease) in:		
Accounts payable	1,302,641	(33,544)
Accrued expenses	(2,306,383)	28,081
Deposits and other liabilities	(5,781,086)	(2,751,445)
Net change in agency accounts	737,723	650,047
Noncash contributions	(1,294,969)	(2,402,192)
Contributions restricted for long-term investment	(7,965,608)	(6,626,480)
Interest and dividends restricted for reinvestment	(531,578)	(417,427)
Changes in value of split-interest agreements	(505,320)	(4,358,186)
Net unrealized and realized gains on investments	(3,905,568)	(36,059,014)
Net cash provided by operating activities	4,632,447	9,073,850
Cash flows from investing activities		
Purchases of property and equipment	(17,743,807)	(11,083,104)
Proceeds from sale of equipment	71,851	32,534
Disbursement of loans to students, faculty, and others	(616,568)	(670,401)
Repayment of loans from students, faculty, and others	1,118,654	668,660
Proceeds from sale of investments	6,499,141	25,619,824
Purchases of investments	(8,392,088)	(30,703,260)
Net cash used in investing activities	(19,062,817)	(16,135,747)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2008 and 2007

	2008	2007
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	$ 2,466,608	$ 5,666,662
Investment in plant	5,499,000	959,818
	7,965,608	6,626,480
Other financing activities:		
Interest and dividends restricted for reinvestment	531,578	417,427
Proceeds of split-interest obligations	500	500
Payment of split-interest obligations	(373,833)	(1,965,118)
Proceeds from notes payable	2,000,000	-
Payment on notes payable	(124,348)	-
Proceeds from lines of credit	40,100,230	46,043,685
Payment of lines of credit	(35,283,840)	(45,043,685)
Proceeds from long-term obligations	-	9,902,013
Payment of long-term obligations	(3,209,458)	(8,071,776)
	3,640,829	1,283,046
Net cash provided by financing activities	11,606,437	7,909,526
Net increase (decrease) in cash and cash equivalents	(2,823,933)	847,629
Cash and cash equivalents at beginning of year	2,823,933	1,976,304
Cash and cash equivalents at end of year	$ -	$ 2,823,933
Non-cash transactions:		
Improvements capitalized and recorded in accounts payable	$ 1,346,958	$ 574,895
Non-cash contributions	1,294,969	2,402,192
Increase (decrease) in value of property and equipment to recognize the associated conditional retirement obligations (see Note Q)	245,758	(937,552)
Other required disclosures:		
Cash paid for interest	$ 2,842,107	$ 2,820,323

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the financial position, activities, and cash flows of Abilene Christian University (the "University"), a not for profit institution of higher education, and its subsidiaries, the ACU Foundation (the "Foundation"), the SCRM Press, and ACU in Oxford (UK). All significant interrelated accounts and transactions have been eliminated in the accompanying consolidated financial statements. The University has majority voting and economic interests in the Foundation, ACU in Oxford, and the SCRM Press.

Basis of Accounting

The consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The focus of these financial statements is to present the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into three classes of net assets - unrestricted, temporarily restricted, or permanently restricted.

- Unrestricted net assets - Net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

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

Contributions

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Investments

Purchased investments are recorded at cost at acquisition. Investments received by gift are recorded at the fair value of the asset as of the date of donation. Non-marketable securities, such as land and mineral interests, are valued on the date of donation using independent appraisals and are adjusted for subsequent declines in value that are considered other than temporary.

Readily marketable equity and fixed income securities (investments readily marketable on national exchanges) are carried at fair value, as determined by the last reported sales price on the date of valuation, or if there has been no sale on that date, the average of the bid and asked prices. Real estate and mineral interests are carried at the estimated fair value on the date the assets were gifted or purchased, net of depletion. Other short-term investments include cash and cash equivalents carried at cost, which approximates fair value. In addition, the University maintains non-marketable alternative investments (primarily limited partnerships) carried at fair value based on information provided by external investment managers at the most recent valuation date prior to fiscal year-end. The net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statement of activities within investment return.

Income and realized and unrealized gains on investments of endowments and similar funds are reported as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; and as increases in unrestricted net assets in all other cases. Investment income and realized and unrealized gains on endowment funds whose restrictions are met in the same reporting period, are reported as revenues of the unrestricted net asset class. Investment losses on endowments and similar funds are reported as decreases in unrestricted net assets.

Endowment earnings used in or available for current operations under the University's current spending policy are recorded in the consolidated statements of activities as endowment support. Endowment earnings in excess of the University's endowment spending policy are recorded as investment return, net of amounts designated for operations, in the consolidated statements of activities. The University's spending policy for the endowment is based on a smoothing formula that targets a distribution rate of 4.5% over time.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

From time to time the University enters into derivative transactions, via mutual funds, as part of its overall investment asset allocation. Derivatives, excluding interest rate hedge derivatives discussed below, are used as part of this asset allocation strategy and are recorded at fair value with realized and unrealized gains and losses reflected in the consolidated statements of activities. These derivatives are included in the investment portfolio to reduce market volatility. Interest rate hedge derivatives on the University's debt portfolio are described in Note P.

Property and Equipment

Investments in the physical plant are recorded at cost. Significant renovations to existing buildings are capitalized, while maintenance and repairs are expensed when incurred. Equipment purchases under $5,000 are not capitalized. Provision for depreciation is made on a straight-line basis over the estimated useful life of the asset. Currently, these estimated useful lives are as follows:

Buildings and building improvements	10-55 years
Improvements other than buildings	15 years
Equipment	5-10 years

When disposition is made of plant assets, the cost and accumulated depreciation are removed from the accounting records, and the resulting gain or loss is recognized in the consolidated statements of activities.

Inventories

Inventories are valued at amounts, which, in the aggregate, approximate the lower of cost or market on the first-in, first-out basis.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the valuation of investments and financial instruments and provisions for uncollectible accounts and notes receivables and pledges. Actual results could differ from those estimates.

U.S. Income Tax Status

The University is a tax-exempt institution and is not a "private foundation" under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501(c)(3) of the IRC; accordingly, no provision for taxes has been made in the consolidated financial statements. The Foundation and SCRM Press have also been accorded recognition as exempt from income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Section 501(c)(3) and 509(a)(3) of the IRC. In 2008 and 2007, the University incurred unrelated business income related to certain bookstore sales, oil and gas working interest, and certain alternative investments resulting in an immaterial amount of unrelated business income.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the University considers all cash and other highly liquid investments with original maturities of three months or less to be cash equivalents. The University places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The University has not experienced any losses on such accounts.

Accounts and Notes Receivable

Receivables are recorded at the contractual amounts owed by students and others adjusted for unamortized discounts, unearned income, undisbursed funds, deferred loan fees, and an allowance for uncollectible accounts and notes receivable. Interest income is recorded on the accrual basis in accordance with the terms of receivables.

The estimated allowances for uncollectible accounts and notes receivable are accounted for using the reserve method. Under this method, allowances are maintained at a level that, in the judgment of management, is adequate to meet the present and potential risks of uncollectibility of the accounts and notes receivable. Management's judgment is based on a variety of factors, which include experience related to charge-offs and recoveries, and scrutiny of individual accounts and notes receivable. Amounts deemed by management to be uncollectible are charged to expenses. Recoveries on receivables previously charged-off are credited to expenses. Provisions for receivable losses are charged to expense and credited to the allowance for uncollectible accounts and notes receivable. At May 31, 2008 and 2007, the allowance for uncollectible accounts and notes receivable was $650,622 and $592,249, respectively.

Advertising Costs

Advertising costs are expensed as incurred and were $260,634 and $350,629 for the years ended May 31, 2008 and 2007, respectively.

Reclassification

Amounts related to the Texas Equalization Grants Program ("TEG") and certain other state grant programs were reclassified on the consolidated statement of activities to account for a change in treatment of TEG funds due to the University having discretion as to which students receive TEG funds. As a result, government grants and contracts and scholarship allowance increased by approximately $4,264,000 in fiscal year 2007 to conform with the presentation for fiscal year 2008. There was no effect on net tuition and fees revenue in either year.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements

In July 2006, the FASB issued FASB (FIN) 48, *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109* (FIN 48). FIN 48, which clarifies FASB Statement No. 109, *Accounting for Income Taxes,* establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the University's financial statements. On initial application, FIN 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying FIN 48 will be reported as an adjustment to net assets at the beginning of the period in which it is adopted. FIN 48 is effective for fiscal years beginning after December 15, 2007. The University has not yet completed its evaluation of the impact on its consolidated financial statements of adopting FIN 48 and as a result, is not able to estimate the effect the adoption will have on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurement.* This new standard provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the organization's mark-to-model value. SFAS 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The University has not yet assessed the effect that the adoption of SFAS 157 will have on its consolidated financial statements and related disclosures.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement 115.* The statement permits entities to choose to measure certain financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The University has not yet assessed the effect, if any, the adoption of SFAS 159 will have on the consolidated financial statements and related disclosures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. These enhanced disclosures will discuss (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS No 161 is effective for fiscal years beginning on or after November 15, 2008, with earlier adoption allowed. The principal impact to the University will be to expand disclosures regarding derivative instruments and hedging activities.

In May 2008, FASB issued FASB Staff Position No. SOP 94-3-1 and AAG HCO-1 *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations* (the FSP). The FSP makes several changes to guidance for non-for-profit entities on consolidations and the equity method of accounting in AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, and the AICPA *Audit and Accounting Guide, Health Care Organizations*. The FSP is effective for fiscal years beginning after June 15, 2008, and to interim periods therein. The University has not yet assessed the effect that the adoption of the FSP will have on its consolidated financial statements and related disclosures.

NOTE B - CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at May 31, 2008 and 2007:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	$2,783,270	$4,345,853
One year to five years	1,935,058	2,401,871
Over five years	35,000	70,000
	4,753,328	6,817,724
Less discount for net present value	(110,541)	(164,856)
Less allowance for uncollectible contributions receivable	(705,001)	(752,808)
	$3,937,786	$5,900,060

The contributions are to be utilized for the following purposes:

	2008	2007
Operations and scholarships	$ 206,646	$ 290,425
Endowment	538,466	1,689,446
Acquisition of land, building and equipment	3,192,674	3,920,189
	$3,937,786	$5,900,060

NOTE B - CONTRIBUTIONS RECEIVABLE - Continued

Contributions receivable as of May 31, 2008 and 2007 have been discounted using rates ranging from 3.1% to 5.28%.

NOTE C - INVESTMENTS

Investments consist of the following at May 31, 2008 and 2007:

	2008	2007
Mutual funds and investment partnerships managed by third parties	$243,299,529	$234,175,605
Notes receivable	684,595	780,310
Stocks and bonds	2,653,033	2,796,750
Real estate and mineral interests, net of depletion	11,708,684	12,988,129
Outside managed	2,430,279	2,941,783
Other investments	1,971,456	1,610,964
	$262,747,576	$255,293,541

The University invests in non-marketable alternative investments (primarily limited partnerships) which are carried at estimated fair value provided by the management of the investment partnerships as of May 31, 2008 and 2007. The University believes that the carrying value of its alternative investments is a reasonable estimate of fair value as of May 31, 2008 and 2007.

Outside managed investments primarily include several outside managed trusts comprised of stocks, bonds, real estate, mineral interests, and other assets.

As of May 31, 2008 and 2007, the cost of investments was $234,915,898 and $214,040,568, respectively. The carrying values of investments include gross unrealized gains of $32,657,690 and $43,497,764 and gross unrealized losses of $4,826,012 and $2,902,522 as of May 31, 2008 and 2007, respectively.

Components of income related to investments for the years ended May 31, 2008 and 2007, are as follows:

	2008	2007
Interest income	$ 742,501	$ 118,885
Dividend income	1,320,788	1,883,367
Mineral income	10,701,689	9,758,255
Ranch income	447,936	418,991
Rental income	-	67,083
Net realized and unrealized gains	3,905,568	36,059,014
Other	-	(91,238)
Total investment income	$17,118,482	$48,214,357

NOTE C - INVESTMENTS - Continued

The University maintains an investment pool for use by its endowment funds (excluding assets held in trust by the Foundation). The University's policy allows the pool to invest in domestic equities, international equities, fixed income securities, marketable alternative investments, real estate, mineral interests, and other investments deemed suitable. The mutual funds and investment partnerships are invested by several professional third-party managers with different investment styles to diversify risk and maximize returns. For the years ended May 31, 2008 and 2007, the spendable income allocated was $8,040,170 and $6,924,694, respectively. The total return for the pool, including interest, dividends, and net realized and unrealized investment appreciation, was approximately 2.4% and 19.6% for the years ended May 31, 2008 and 2007, respectively.

As of May 31, 2008 and 2007, the investment pool was composed of the following:

	2008	2007
Mutual funds and investment partnerships managed by third parties	$200,287,352	$188,413,661
Notes receivable	127,793	278,328
Donated stocks	435,789	433,444
Cash and cash equivalents	757,277	1,333,990
	$201,608,211	$190,459,423

NOTE D - PROPERTY AND EQUIPMENT

At May 31, 2008 and 2007, property and equipment consisted of the following:

	2008	2007
Buildings	$111,177,418	$105,835,409
Improvements to land and building	34,424,909	33,105,233
Equipment	27,425,110	26,227,255
	173,027,437	165,167,897
Less accumulated depreciation and amortization	(67,032,258)	(61,517,543)
	105,995,179	103,650,354
Construction in progress	11,031,217	3,166,211
Land	3,606,126	2,904,699
	$120,632,522	$109,721,264

Depreciation and amortization expense for the years ending May 31, 2008 and 2007 was $6,560,733 and $6,172,879, respectively.

NOTE D - PROPERTY AND EQUIPMENT - Continued

Construction in progress as of May 31, 2008 consists of various projects including renovations to the Campus Center and new construction costs of the Hunter Welcome Center. Construction in progress as of May 31, 2007 consisted of renovations to the Sikes Hall and Construction of the Center for Conflict Resolution.

No interest was capitalized during the years ended May 31, 2008 and 2007.

The University currently has an $11,678,000 construction commitment with Imperial Construction for the construction of the Hunter Welcome Center. As of May 31, 2008, $6,981,503 of the construction commitment had been paid. The University also has an architectural contract with Tittle Luther for Services related to the Softball & Soccer Fieldhouse. The commitment is based on 7.5% of actual construction costs, which are estimated at $1,300,000. All contracts are subject to adjustments.

NOTE E - LONG-TERM OBLIGATIONS PAYABLE

Long-term obligations as of May 31, 2008 and 2007 were as follows:

	2008	2007
1998 - Higher Education Revenue Refunding and Improvement Bonds; payable in annual installments; maturing in fiscal year 2019; interest rate of 4.75%; secured by revenues.	$ 8,530,000	$ 8,770,000
2001 - Higher Education Revenue Improvement Bonds; payable in semi-annual installments; maturing in fiscal year 2021; interest rate of 5.0%; secured by revenues.	7,320,799	7,712,624
2003 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2024; variable interest rate; secured by revenues.	7,968,194	8,325,236
2005 - Tax-exempt Lease; payable in semi-annual installments; maturing in fiscal year 2010; interest rate of 3.59%; secured by leased technology equipment.	532,364	784,706
2005 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	6,030,000	6,365,000
2005 B - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	1,776,250	1,877,750

NOTE E - LONG-TERM OBLIGATIONS PAYABLE - Continued

	2008	2007
2006 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	$ 6,229,031	$ 7,329,811
2006 B - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	2,422,954	2,553,925
2006 Taxable - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	5,400,000	5,700,000
Miscellaneous notes payable	3,128,068	1,252,414
	$49,337,660	$50,671,466

On July 17, 2006, the University issued $6,000,000 in 2006 taxable debt for the purpose of refunding the remaining Series 2002 debt that matured on that date. The new note matures on April 1, 2026 and has a variable interest rate of the 30-day LIBOR rate plus 0.65%. Principal and interest are amortized over the life of the debt and are payable semiannually.

On November 9, 2006, the University issued $2,619,410 in Series 2006B debt for the purpose of renovation of the Sikes Residence Hall, reconstruction of ornamental cornice work on various buildings, replacing the HVAC system in the Gibson Center, and paying costs of issuance. The debt matures on October 1, 2026 and has a variable interest rate based on 65% of the 30-day LIBOR rate plus 0.90% (2.74% and 4.36% for the years ending May 31, 2008 May 31, and 2007, respectively). Principal and interest are amortized over the life of the debt and are payable semiannually.

Variable rate Series 2003, 2005, and 2005B interest rates are based on 65% of the 30-day LIBOR rate plus 1.00% (2.84% and 4.46% as of May 31, 2008 and 2007, respectively). Series 2006 variable rate interest is based on 65% of the 30-day LIBOR rate plus 0.55% (2.39% and 4.01% as of May 31, 2008 and 2007, respectively). However, the University has obtained interest rate swap agreements on the 2003, 2005, 2006, 2006 Taxable, and 2006B debt issues. Refer to Note P for a further discussion of derivative instruments.

NOTE E - LONG-TERM OBLIGATIONS PAYABLE - Continued

A schedule of future fiscal year principal payments of long-term debt follows:

2009	$ 4,072,424
2010	4,555,366
2011	3,622,286
2012	3,452,564
2013	2,908,748
Thereafter	30,726,272
	$49,337,660

Total interest expense for long term debt for the years ended May 31, 2008 and 2007 was $2,159,197 and $2,332,772, respectively.

The Omnibus Agreement to the Bond Agreements requires the University to comply with two financial covenants including a debt service coverage ratio and minimum endowment fund liquidity. As of May 31, 2008 and 2007, the University was in compliance with all bond covenants.

NOTE F - LINES OF CREDIT

At May 31, 2008, the University had two line of credit agreements to provide operating cash flows. These lines have been established to maximize endowment earnings and facilitate cash management. These agreements have maximum available lines of credit totaling $9,500,000 with First Financial Bank, Abilene and $8,000,000 with Bank of America, N.A. At May 31, 2008, there was $6,288,411 outstanding on the First Financial Bank line. $6,000,000 and $7,000,000 were outstanding on the Bank of America line at May 31, 2008 and 2007, respectively. The lines are unsecured with interest payable at 4.25% on the First Financial Bank line and prime minus 0.5% or LIBOR plus 1.25% (2.74% and 6.57% at May 31, 2008 and 2007, respectively) on the Bank of America line.

Total interest expense for lines of credit for the years ended May 31, 2008 and 2007 was $709,684 and $523,421, respectively.

NOTE G - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets at May 31, 2008 and 2007 are listed below according to the purpose for which the income for these items is to be used:

	2008	2007
Student loans	$ 1,409,095	$ 1,462,255
Scholarships	83,450,213	80,909,340
Instruction, research, and divisional support	34,659,759	33,807,300
General operations	5,589,430	5,497,931
	125,108,497	121,676,826
Life income, student loan funds and other accounts	21,854,257	21,715,307
	$146,962,754	$143,392,133

Temporarily restricted net assets consist of the following at May 31, 2008 and 2007:

	2008	2007
Gifts and other unexpended revenues and gains available for:		
Scholarships	$ 1,484	$ 6,089
Instruction, research, and divisional support	1,705,020	2,080,607
General operations	149,595	149,595
Acquisition of property and equipment	4,512,553	4,203,246
	6,368,652	6,439,537
Life income, student loan funds and other accounts	3,385,884	2,043,646
	$9,754,536	$8,483,183

NOTE H - ENDOWMENT FUNDS

As of May 31, 2008 and 2007, the University's net assets from endowment accounts were composed of the following:

	2008	2007
Permanently restricted endowment:		
Managed by the University or the Foundation	$122,678,218	$118,735,043
Managed by third party trusts	2,430,279	2,941,783
Total permanently restricted endowment	125,108,497	121,676,826
Temporarily restricted endowment:		
Managed by the University	1,856,098	2,236,291
Unrestricted endowment	131,353,236	127,413,602
Total endowment accounts	$258,317,831	$251,326,719

While readily marketable investments (investments readily marketable on national exchanges) are adjusted for changes in market value, real estate and mineral interests are carried at the estimated fair value on the date the asset was gifted to or purchased into the endowment (adjusted for depletion). Based on internal evaluations, management believes the current fair value of the real estate and mineral interests to be substantially greater than the carrying value. The current estimated fair value of major real estate holdings is determined by outside appraisals performed every 2 years. The current estimated fair value of mineral interests is based on the last 60 months of actual mineral income received. If adjusted based on management's estimates of current fair value, the total fair value of the endowment as of May 31, 2008 and 2007 would be $293,969,279 and $280,132,151, respectively.

NOTE I - CHARITABLE TRUSTS AND ANNUITIES

The University is party to a number of charitable trusts and annuities, the majority of which the University, or the University through its affiliate Foundation, is the trustee. Assets under charitable trusts and annuities consist of the following at May 31, 2008 and 2007:

	2008	2007
University and Foundation as trustee:		
Charitable trusts	$44,524,600	$44,892,043
Charitable gift annuities	1,223,154	1,154,173
	45,747,754	46,046,216
Third-party trustee	1,631,308	1,703,952
	$47,379,062	$47,750,168

NOTE I - CHARITABLE TRUSTS AND ANNUITIES - Continued

For charitable trusts and annuities for which the University is trustee, contributions are recorded at fair value in the year of the agreement and are reflected as charitable trusts and annuities in the accompanying consolidated financial statements. For the years ended May 31, 2008 and 2007, $463,018 and $211,246, respectively, was recorded as contribution revenue related to these types of agreements. The total payments to annuitants and income beneficiaries during the years ended May 31, 2008 and 2007 were $1,527,318 and $1,359,294, respectively. In addition to the recording of the asset, a liability is recorded representing the discounted future cash flows expected to be paid to the specified beneficiary designated by the donor. The estimated liability of future cash flows is based upon the life expectancy of the donor, the current market value of the trust, and the applicable federal rate (AFR) related to each trust based on the AFR in effect at the date the trust was created. Investment income, payments to beneficiaries, and adjustments to the liability are reflected as changes in value of split-interest agreements in the consolidated statements of activities. The estimated liability of the future cash flows, as of May 31, 2008 and 2007, was $27,330,907 and $27,819,330, respectively.

For charitable trusts of which the University is not the trustee, contributions are recognized in the year the University becomes aware of the existence of the agreement and are valued at the discounted present value of expected future cash flows. The expected future cash flows have been discounted at a rate of 6% over the life expectancy of the parties involved and calculated based upon the current market value of the trust's assets and other factors stipulated in the agreements. The present value of the expected future cash flows has been reflected as a component of charitable trusts and annuities in the consolidated statements of financial position. The change in estimated present value is reflected as a change in value of split-interest agreements in the consolidated statements of activities.

NOTE J - RETIREMENT PLAN

The University has two defined contribution retirement plans, a 401(a) plan and a 401(k) plan, covering substantially all full and part-time personnel. The University contributes 4% of the employee's salary as a match to the employee's contribution of 2% in the 401(a) plan. In addition, employees are required to contribute 2% of salary to participate in the 401(k) plan for which the University will contribute up to 4% of the employee's salary. University contributions under both plans totaled $2,469,114 and $2,331,393, respectively, for the years ended May 31, 2008 and 2007.

NOTE K - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to the University's defined contribution pension plans, the University sponsors a defined benefit health care plan that provides post-retirement medical benefits to currently retired employees and current full-time employees who had worked 10 years and attained age 55 while in service with the University as of May 31, 1995.

NOTE K - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statement No. 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires the University to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its statement of financial position and to recognize previously unrecognized gains/(losses) and prior service costs or credits as a component of its consolidated statement of activities.

The University adopted the recognition and measurement provisions of SFAS 158 in the fiscal year ended May 31, 2008 for its defined benefit health care plan. As a result of implementing SFAS 158, the liability recognized for postretirement benefit obligation is no greater than the liability that would have been recognized under the prior rules.

The following presents the plan's funded status as of May 31:

	2008	2007
Accumulated postretirement benefit obligation	$(4,585,200)	$(4,585,200)
Plan assets at fair value	-	-
Funded status	$(4,585,200)	$(4,585,200)
Accrued postretirement benefit cost	$(4,488,804)	$(4,503,000)
Annual benefit costs for the year ended May 31:		
Net periodic postretirement benefit cost	$ 257,196	$ 231,500
Employer contributions	$ 353,592	$ 337,300
Plan participant contributions	35,020	34,800
Benefits paid	$ 388,612	$ 372,100

The accrued postretirement benefit cost is recorded in accrued salaries and benefit expenses on the accompanying consolidated statements of financial position.

The weighted average annual assumed rate of increase in the per capita cost of covered medical benefits is 9% as of May 31, 2008 and is assumed to decrease gradually to 5% after eight years and remain at that level thereafter. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 5.9% at May 31, 2008.

The weighted average annual assumed rate of increase in the per capita cost of covered medical benefits is 9.5% as of May 31, 2007 and is assumed to decrease gradually to 5.0% after nine years and remain at that level thereafter. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 5.9% at May 31, 2007.

NOTE K - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

The University expects to contribute $451,700 to the post-retirement benefit plan in fiscal year 2009. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2009	$ 451,700
2010	439,800
2011	436,700
2012	437,300
2013-2017	2,000,500

NOTE L - HEALTH INSURANCE

The University maintains a partially self-funded health insurance plan with insured specific and aggregate stop-loss coverage, administered by a third party administrator. The administrator acts as the University's agent in making benefit payments on the University's behalf. The total liability for outstanding health claims was $321,349 and $367,203 at May 31, 2008 and 2007, respectively, and is recorded in accrued salaries and benefit expenses in the accompanying consolidated statements of financial position. Management believes the liability is adequate to fund any health claims incurred but not paid or reported as of the end of the fiscal year.

NOTE M - COMMITMENTS AND CONTINGENCIES

The University leases facilities to support its study abroad programs under noncancellable operating agreements through 2020. Rent expense for the years ended May 31, 2008 and 2007 was $577,700 and $629,980, respectively. Future minimum rentals under the noncancellable leases as of May 31, 2008 are as follows:

Year ending May 31,	
2009	$430,817
2010	122,830
2011	34,848
2012	34,848
2013	34,848
Thereafter	226,512

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management believes that liabilities, if any, arising from such litigation and examinations would not have a material effect on the University's financial position, results of operations, or cash flows.

NOTE N - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The University grants credit in the form of accounts and notes receivable to students and others, a substantial portion of which are enrolled at the University. The University does not require collateral for the extension of credit with the exception of notes made to facilitate real estate sales, in which case, the collateral is typically the real estate being sold. Management periodically monitors credit risk through the evaluation of the account's status and ability to repay.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments,* requires entities to disclose the estimated fair value of its financial instrument assets and liabilities. Many of the University's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. It is also the University's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities with the exception of investments.

Estimated fair values have been determined by the University using the most relevant available data. The estimated fair values and recorded book balances at May 31, 2008 and 2007 are as follows:

Financial instruments actively traded in a primary or secondary market have been valued using quoted available market prices.

	2008		2007	
	Recorded balance	Estimated fair value	Recorded balance	Estimated fair value
Financial assets				
Cash and cash equivalents	$ -	$ -	$ 2,823,933	$ 2,823,933
Contributions receivable	3,937,786	3,937,786	5,900,060	5,900,060
Stocks and bonds	2,653,033	2,653,033	2,796,750	2,796,750
Mutual funds and investment partnerships	243,299,529	243,299,529	234,175,605	234,175,605
Total financial assets	$249,890,348	$249,890,348	$245,696,348	$245,696,348
Financial liabilities:				
Net advance on lines of credit	$ 12,288,411	$ 12,288,411	$ 7,000,000	$ 7,000,000
Long-term obligations payable	49,337,660	46,924,599	50,671,466	50,183,756
Total financial liabilities	$ 61,626,071	$ 59,213,010	$ 57,671,466	$ 57,183,756

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The fair value of contributions receivable has been determined by discounting pledges at an appropriate discount rate commensurate with the risks involved. The fair value of notes and bonds payable was determined by discounting future cash flows at an appropriate rate commensurate with the risks involved.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. The University's remaining assets and liabilities, which are not considered financial instruments have not been valued differently than has been customary with historical cost accounting.

The University has determined that it is not practicable to estimate the fair value of notes receivable, real estate, and mineral interest and their related effective interest rates and maturity because there is no readily tradable market for such assets and the cost of developing a valuation model to estimate the fair value or obtaining an independent valuation of those financial instruments would exceed the benefit derived. The carrying amount of such assets at May 31, 2008 and 2007 are as follows:

	2008	2007
Notes receivable - student accounts	$ 3,480,586	$ 3,580,584
Investments:		
Notes receivable - other	684,595	780,310
Other investments	16,110,419	17,540,878

NOTE P - DERIVATIVE INSTRUMENTS

The University entered into three interest rate swap agreements during fiscal year 2005 and two interest rate swap agreements during fiscal year 2007. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149), requires that the University disclose these swaps as fair value hedges. The primary reason for swapping from a variable to fixed rate is to stabilize the university's operating budget vis-à-vis interest expense.

Management has completed variable to fixed rate swaps on five debt issues: 1) Series 2003 has been swapped to a fixed rate of 4.59%, 2) Series 2005 has been swapped to a fixed rate of 4.59%, 3) Series 2006 has been swapped to a fixed rate of 3.29% until September 1, 2011, 4) Series 2006 Taxable has been swapped to a fixed rate of 6.06%, and 5) Series 2006B has been swapped to a fixed rate of 4.43%.

Management has identified the following benefits of using swap agreements to accomplish the above objectives: 1) a lower fixed rate is available using a swap than by refunding at a fixed rate; 2) less paperwork and due diligence is involved in executing a swap than in a refunding. A swap is an agreement separate from the debt, but mimicking the debt repayment structure; and 3) a swap does not affect the University's bank qualified debt limit of $10 million per calendar year. This allowed the University to issue additional debt for new construction and new network technology at the same time it restructured the variable rate debt.

NOTE P - DERIVATIVE INSTRUMENTS - Continued

The risks of using the proposed interest rate swaps include: 1) credit risk - risk that the counterparty will not fulfill its obligation on the swap contract; 2) basis risk - mismatch between the interest rate received from the swap contract and the interest actually owed on the debt; and 3) opportunity cost - if the floating rate that the University can pay on the debt averages below the fixed rate the University pays on the swap, then the University has the opportunity cost associated with locking in the higher interest rate.

The effectiveness of the swaps is judged by comparing the interest rates of the swaps with the interest rates on the underlying debt. The swap terms should identically match the critical terms of the floating rate debt, and thus would be expected to perfectly offset the hedged cash flows of the debt. Management believes the swaps are fully effective as of May 31, 2008 and 2007, therefore, no gain or loss relating to the swaps is reflected in the consolidated statements of activities.

NOTE Q – ASSET RETIREMENT OBLIGATION

Due to current facts and circumstances, the University re-evaluated the estimated costs associated to remediate its asset retirement obligation (ARO) in 2008 and 2007 and determined that the costs should be reduced by approximately $5,087,000 and $2,476,000, respectively. The revaluation was considered a change in accounting estimate under SFAS No. 154, *Accounting Changes and Error Corrections*. This resulted in an increase in unrestricted net assets of approximately $5,551,000 and $2,476,000 in 2008 and 2007, respectively, and a net decrease to property and equipment of approximately $246,000 and $938,000 in 2008 and 2007 respectively.

The following presents a reconciliation of the asset retirement obligations at May 31, 2008 and 2007:

Asset retirement obligations at May 31, 2006	$10,701,641
Revision in cash flow estimate due to change in accounting estimate	(3,413,919)
Accretion expense	382,510
Asset retirement obligations at May 31, 2007	$ 7,670,232
Revision in cash flow estimate due to change in accounting estimate	(5,738,579)
Accretion expense	114,314
Asset retirement obligations at May 31, 2008	$ 2,045,967

NOTE R - SUBSEQUENT EVENTS

On June 1, 2008, the University issued $10,000,000 in Series 2009 tax-exempt revenue bonds to finance construction and renovations on certain education and housing facilities (The Hunter Welcome Center, masonry cornice work on various buildings, and renovations to Mabee Hall). The bonds are payable in equal semiannual principal installments of $250,000 beginning on April 1, 2009, and ending on October 1, 2028, plus interest accruing at 62.075% of the LIBOR rate plus 90 basis points. The bonds are subject to certain covenants relating to tax-exempt status.

On August 7, 2008, the University entered into a $2,200,000 loan agreement with a commercial bank to finance a portion of the renovation costs on an existing building (the Cafeteria Loan). The Cafeteria Loan is payable in thirteen semiannual payments, including interest at 6.5%, of $115,643 beginning on February 10, 2009, and one final payment of $1,565,942 due on August 10, 2015, at which time all unpaid principal and interest are due. The Cafeteria Loan is secured by the University's gross revenues on a parity basis with the lender of the Series 2009 tax-exempt revenue bonds. The Cafeteria Loan is subject to certain financial covenants.