Consolidated Financial Statements and Report of Independent Certified Public Accountants

Abilene Christian University

May 31, 2009 and 2008

Grant Thornton

Report of Independent Certified Public Accountants

Audit • Tax • Advisory

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Board of Trustees
Abilene Christian University

We have audited the accompanying consolidated statements of financial position of Abilene Christian University and its subsidiaries (the "University") as of May 31, 2009 and 2008, 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 its subsidiaries as of May 31, 2009 and 2008, 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.

As discussed in Note A to the consolidated financial statements, effective June 1, 2008, the University adopted the provisions of Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. As discussed in Note H to the consolidated financial statements, effective June 1, 2008, the University adopted the provisions of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds*. As discussed in Note O to the consolidated financial statements, effective June 1, 2008, the University adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*.

Grant Thornton LLP

Dallas, Texas
August 13, 2009

Abilene Christian University

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

May 31, 2009 and 2008

ASSETS	2009	2008
Cash and cash equivalents	$ 2,356,451	$ -
Accounts and notes receivable, net	6,903,798	8,810,028
Contributions receivable, net	9,406,260	3,937,786
Inventories	2,534,456	2,943,563
Prepaid expenses and other assets	1,304,405	1,676,849
Investments	242,937,302	262,747,576
Charitable trusts and annuities	23,144,746	47,379,062
Property and equipment, net	130,200,710	120,632,522
Total assets	$418,788,128	$448,127,386
LIABILITIES AND NET ASSETS		
Accounts payable	$ 1,846,779	$ 2,751,122
Accrued interest payable	381,466	305,322
Accrued salaries and benefit expenses	12,501,633	9,126,200
Net advances on lines of credit	10,786,215	12,288,411
Deposits and other liabilities	10,030,232	9,792,183
Reserve for charitable trusts and annuities	13,681,662	27,330,907
Long-term obligations	58,160,631	49,337,660
Total liabilities	107,388,618	110,931,805
Commitments and contingencies		
Net assets		
Unrestricted	153,422,700	117,997,177
Temporarily restricted	70,578,144	121,612,374
Permanently restricted	87,398,666	97,586,030
Total net assets	311,399,510	337,195,581
Total liabilities and net assets	$418,788,128	$448,127,386

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended May 31, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues, gains, and other support				
Tuition and fees	$ 75,749,947	$ -	$ -	$ 75,749,947
Less scholarship allowances	(27,324,593)	-	-	(27,324,593)
Net tuition and fees	48,425,354	-	-	48,425,354
Auxiliary enterprises sales and services	20,938,567	-	-	20,938,567
Private gifts and grants	6,227,144	4,923,098	-	11,150,242
Endowment support	4,544,044	8,640,998	-	13,185,042
Government grants and contracts	7,364,394	-	-	7,364,394
Other revenue	4,591,556	-	-	4,591,556
Net assets released from restrictions	10,788,022	(10,788,022)	-	-
Total revenues, gains, and other support	102,879,081	2,776,074	-	105,655,155
Expenses				
Operating expenses:				
Instruction and research	32,233,188	-	-	32,233,188
Academic support	8,638,664	-	-	8,638,664
Student services	10,539,940	-	-	10,539,940
Public services	2,889,889	-	-	2,889,889
Expenses of auxiliary enterprises	27,116,414	-	-	27,116,414
Fundraising	2,526,881	-	-	2,526,881
Management and general	20,141,635	-	-	20,141,635
Total operating expenses	104,086,611	-	-	104,086,611
Increase (decrease) in net assets from operating activities	(1,207,530)	2,776,074	-	1,568,544
Non-operating:				
Contributions for endowment, plant, and other	6,104	4,698,617	2,279,841	6,984,562
Investment return, net of amount designated for operations	(1,721,202)	(54,687,045)	(2,684,800)	(59,093,047)
Other revenues	121,354	-	-	121,354
Net assets released from endowment, plant and other	3,679,767	(3,679,767)	-	-
Expenses for endowment, plant, and other	(1,124,134)	-	-	(1,124,134)
Changes in value of split-interest agreements	19,717	(142,109)	(9,782,405)	(9,904,797)
Net non-operating revenues, expenses, and other changes	981,606	(53,810,304)	(10,187,364)	(63,016,062)
Change in net assets before cumulative effect of change in accounting principle (Note A)	(225,924)	(51,034,230)	(10,187,364)	(61,447,518)
Cumulative effect of change in accounting principle	35,651,447	-	-	35,651,447
Total change in net assets	35,425,523	(51,034,230)	(10,187,364)	(25,796,071)
Net assets at beginning of year	117,997,177	121,612,374	97,586,030	337,195,581
Net assets at end of year	$153,422,700	$ 70,578,144	$ 87,398,666	$311,399,510

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 asset reclassification based on change in law (Note A)	(62,481,114)	111,857,838	(49,376,724)	-
Net assets at end of year	$117,997,177	$121,612,374	$ 97,586,030	$337,195,581

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	$(25,796,071)	$ 17,031,034
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	(35,651,447)	-
Depreciation and amortization	6,450,282	6,560,733
Accretion of asset retirement obligations	105,139	114,314
Gain on sale of equipment	(110,142)	(45,793)
Bad debt expense	726,212	774,120
(Increase) decrease in:		
Accounts and notes receivable	1,105,604	(942,576)
Contributions receivable	(5,468,474)	1,962,274
Inventories	409,107	76,065
Prepaid expenses and other assets	372,444	(647,576)
Increase (decrease) in:		
Accounts payable	(904,343)	1,302,641
Accrued interest payable	76,144	(19,509)
Accrued salaries and benefit expenses	3,375,433	(2,286,874)
Deposits and other liabilities	132,910	(5,043,363)
Noncash contributions	(342,823)	(1,294,969)
Contributions restricted for long-term investment	(6,641,739)	(7,965,608)
Interest and dividends restricted for reinvestment	(282,709)	(531,578)
Changes in value of split-interest agreements	9,904,797	(505,320)
Net unrealized and realized (gains) losses on investments	57,461,231	(3,905,568)
Net cash provided by operating activities	4,921,555	4,632,447
Cash flows from investing activities		
Purchases of property and equipment	(15,024,372)	(17,743,807)
Proceeds from sale of equipment	110,142	71,851
Disbursement of loans to students, faculty, and others	(560,585)	(616,568)
Repayment of loans from students, faculty, and others	634,999	1,118,654
Proceeds from sales and maturities of investments	34,468,852	6,499,141
Purchases of investments	(35,360,094)	(8,392,088)
Net cash used in investing activities	$(15,731,058)	$(19,062,817)

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

Abilene Christian University

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended May 31, 2009 and 2008

	2009	2008
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	$ 4,062,921	$ 2,466,608
Investment in plant	2,578,818	5,499,000
	6,641,739	7,965,608
Other financing activities:		
Interest and dividends restricted for reinvestment	282,709	531,578
Proceeds of split-interest obligations	-	500
Payment of split-interest obligations	(85,171)	(373,833)
Proceeds from notes payable	2,200,000	2,000,000
Payment of notes payable	(251,355)	(124,348)
Proceeds from lines of credit	64,574,594	40,100,230
Payment of lines of credit	(66,076,790)	(35,283,840)
Proceeds from long-term obligations	10,000,000	-
Payment of long-term obligations	(4,119,772)	(3,209,458)
	6,524,215	3,640,829
Net cash provided by financing activities	13,165,954	11,606,437
Net increase (decrease) in cash and cash equivalents	2,356,451	(2,823,933)
Cash and cash equivalents at beginning of year	-	2,823,933
Cash and cash equivalents at end of year	$ 2,356,451	$ -
Non-cash transactions:		
Improvements capitalized and recorded in accounts payable	$ -	$ 1,346,958
Non-cash contributions	342,823	1,294,969
Increase (decrease) in value of property and equipment to recognize the associated conditional retirement obligations (see Note Q)	-	245,758
Purchase of equipment through issuance of long-term obligation	994,098	-
Other required disclosures:		
Cash paid for interest	$ 2,668,363	$ 2,842,107

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" or "ACU"), a not for profit institution of higher education in Abilene, Texas, and its subsidiaries, the ACU Foundation (the "Foundation"), the Stone-Campbell Restoration Movement Publishers ("SCRMP"), ACIMCO, and ACU in Oxford (UK). All significant interrelated accounts and transactions have been eliminated in the accompanying consolidated financial statements. The University has controlling voting and economic interests in the Foundation, SCRMP, ACIMCO, and ACU in Oxford.

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.

Statement of Activities

The University defines operating activities, as included in the accompanying statement of activities, as the revenue and expenses resulting from its educational programs and other core mission activities. Donor-restricted contributions to endowments and capital contributions, as well as investment returns in excess of the University's defined spending limit, are excluded from operating activities and separately reported as nonoperating activities in the accompanying statement of activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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. 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 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 assets.

Endowment

In August 2008, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). Under FSP 117-1, a not-for-profit organization that is subject to an enacted version of UPMIFA shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the organization's governing board determines must be retained (preserved) permanently consistent with the relevant law. The University is subject to the version of UPMIFA enacted by the state of Texas, which is fully described in Note H.

As a result of adopting FSP 117-1, the University retrospectively recognized a reclassification of certain amounts of net assets as a change in accounting principle as of May 31, 2008. The reclassification among the restriction categories of net assets was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Net asset reclassification based on change in law	$(62,481,114)	$111,857,838	$(49,376,724)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments

On June 1, 2008, the University adopted FASB Statement of Financial Accounting Standards ("SFAS") No. FAS 157, *Fair Value Measurement* ("SFAS 157"). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. On October 10, 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ("FSP 157-3") which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective for all periods presented in accordance with SFAS 157. The University considered this guidance with respect to the valuation of its financial assets and liabilities and their corresponding designations within the fair value hierarchy described in Note O.

Fair Value Option

On June 1, 2008, the University adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure eligible financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis, must be applied to an entire instrument, and is irrevocable once elected.

During the year ended May 31, 2009, the University elected to apply the fair value option under SFAS 159 to its investments in real estate and mineral interests in order to report the most relevant data on these investments. The effect of applying the fair value option to these investment values increased the value of unrestricted net assets at the adoption date by $35,651,447 and is recorded as a cumulative effect of change in accounting principle as of June 1, 2008.

Investments

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. Prior to the adoption of SFAS 159, non-marketable investments, such as land and mineral interests, were valued on the date of donation using independent appraisals and adjusted for subsequent declines in value that are considered other than temporary. After the adoption of SFAS 159, real estate and mineral interests are carried at fair value based on appraised values or reserve analyses. 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. Other investments include cash and cash equivalents carried at cost, which approximates fair value, and notes receivable carried at net realizable value, which approximates fair value. The net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statements of activities within investment return and endowment support.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income and realized and unrealized gains and losses 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 or if the funds have not been appropriated for use in operations; and as increases in unrestricted net assets in all other cases.

Non-endowment investments in for-profit entities in which the University does not own a controlling interest in the investee but possesses the ability to significantly influence the operating and financial policies of the investee are recorded on the equity method of accounting in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. The equity method of accounting requires investments to be initially recorded at cost and subsequently increased (decreased) for the University's share of the investee's net income (loss) and reduced when distributions are received. At May 31, 2009, the University owned 26% of the outstanding common stock of Genesis Network Solutions, Inc. ("Genesis"), which is the University's only investment recorded on the equity method. Two board members have an indirect ownership in Genesis.

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 other financial instruments, provisions for uncollectible accounts and notes receivable and pledges, asset retirement obligations, and the accumulated post-retirement benefit obligation. Actual results could differ from those estimates.

U.S. Income Tax Status

The University is a tax-exempt institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("IRC") and is not a "private foundation" under Section 501(a) of the IRC; accordingly, no provision for taxes has been made in the consolidated financial statements. The Foundation, SCRMP, and ACIMCO have also been accorded recognition as exempt from income tax under Section 501(a) of the IRC, as organizations described in Section 501(c)(3) and 509(a)(3) of the IRC. For the years ended May 31, 2009 and 2008, 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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Notes Receivable

Receivables are recorded at the contractual amounts owed by students and others adjusted for unamortized discounts, and an allowance for uncollectible accounts and notes receivable. Interest income on notes receivable 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 future 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 expense. Recoveries on receivables previously charged-off are credited to expense. Provisions for receivable losses are charged to expense and credited to the allowance for uncollectible accounts and notes receivable. At May 31, 2009 and 2008, the allowance for uncollectible accounts and notes receivable was $535,682 and $650,622, respectively.

Inventories

Inventories are valued at amounts, which, in the aggregate, approximate the lower of cost or market on the first-in, first-out basis. The University recorded a loss for obsolete inventory of $213,258 for the year ended May 31, 2009. No loss for obsolete inventory was recorded for the year ended May 31, 2008.

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. Purchases and improvements 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	5-20 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.

Advertising Costs

Advertising costs are expensed as incurred and were $277,440 and $260,634 for the years ended May 31, 2009 and 2008, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements

In December 2008, the FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises.* FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The University has elected to defer the application of Interpretation 48 for the year ending May 31, 2009. The University evaluates its uncertain tax positions using the provisions of FASB SFAS No. 5, *Accounting for Contingencies* ("SFAS 5"). Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. No loss contingency has been recognized under the provisions of SFAS 5 as of May 31, 2009.

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 SFAS 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 161 is effective for fiscal years beginning on or after November 15, 2008, with earlier adoption allowed. The principal impact to the University in fiscal year 2010 will be to expand disclosures regarding derivative instruments and hedging activities.

In May 2008, FASB issued FSP 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 SOP 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.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, to establish standards for reporting events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. The statement is effective for interim and annual periods ending after June 15, 2009. The University does not expect the adoption of this standard to have a material effect on the consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions, Including an amendment of FASB Statement No. 142,* to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit reporting entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. This Statement is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The University does not expect the adoption of this standard to have a material effect on the consolidated financial statements.

NOTE B - CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at May 31, 2009 and 2008:

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	$ 3,904,514	$2,783,270
One year to five years	6,628,450	1,935,058
Over five years	-	35,000
	10,532,964	4,753,328
Less discount for net present value	(257,645)	(110,541)
Less allowance for uncollectible contributions receivable	(869,059)	(705,001)
	$ 9,406,260	$3,937,786

The contributions are to be utilized for the following purposes:

	2009	2008
Operations and scholarships	$ 5,000,543	$ 206,646
Endowment	1,425,012	538,466
Acquisition of land, building and equipment	2,980,705	3,192,674
	$9,406,260	$3,937,786

Contributions receivable as of May 31, 2009 and 2008 have been discounted using rates ranging from 1.21% to 5.28% and 3.1% to 5.28%, respectively.

NOTE C - INVESTMENTS

Investments consist of the following at May 31, 2009 and 2008:

	2009	2008
Mutual funds and investment partnerships managed by third parties	$172,025,772	$243,299,529
Notes receivable	332,504	684,595
Stocks and bonds	12,574,503	2,653,033
Real estate and mineral interests	55,018,424	11,708,684
Outside managed	1,833,731	2,430,279
Other investments	1,152,368	1,971,456
	$242,937,302	$262,747,576

The University invests in non-marketable alternative investments (primarily limited partnerships) that are carried at estimated fair value provided by the management of the investment partnerships. The University believes that the carrying value of its alternative investments is a reasonable estimate of fair value as of May 31, 2009 and 2008. The University has pledged equity securities valued at $6,878,175 at May 31, 2009, under a pledge agreement in connection with a line of credit (see Note F).

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

Components of income related to investments for the years ended May 31, 2009 and 2008, are as follows:

	2009	2008
Interest income	$ 309,979	$ 742,501
Dividend income	1,494,912	1,320,788
Mineral income	8,730,432	10,701,689
Ranch income	772,047	447,936
Equity in earnings of unconsolidated entity	245,856	-
Net realized and unrealized gains (losses)	(57,461,231)	3,905,568
Total investment income (loss)	$(45,908,005)	$17,118,482

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 determined appropriate by management. Investments in 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, 2009 and 2008, the spendable income allocated from these investments was $8,751,631 and $8,040,170, respectively. The total return for the pool, including interest, dividends, and net realized and unrealized investment depreciation and appreciation, was approximately -24.7% and 2.4% for the years ended May 31, 2009 and 2008, respectively.

NOTE C - INVESTMENTS - Continued

External investment management fees were approximately $240,489 and $315,911 for the years ended May 31, 2009 and 2008, respectively. Investment management fees are recorded as a reduction to investment return in the accompanying statement of activities.

As of May 31, 2009 and 2008, the investment pool was composed of the following:

	2009	2008
Mutual funds and investment partnerships managed by third parties	$150,629,123	$200,287,352
Notes receivable	100,422	127,793
Donated stocks	415,407	435,789
Cash and cash equivalents	1,792,971	757,277
	$152,937,923	$201,608,211

NOTE D - PROPERTY AND EQUIPMENT

At May 31, 2009 and 2008, property and equipment consisted of the following:

	2009	2008
Buildings	$127,420,838	$111,177,418
Improvements to land and building	40,298,057	34,424,909
Equipment	28,389,901	27,425,110
	196,108,796	173,027,437
Less accumulated depreciation and amortization	(72,468,242)	(67,032,258)
	123,640,554	105,995,179
Construction in progress	2,954,030	11,031,217
Land	3,606,126	3,606,126
	$130,200,710	$120,632,522

Depreciation and amortization expense for the years ending May 31, 2009 and 2008, was $6,450,282 and $6,560,733, respectively.

Construction in progress as of May 31, 2009, consisted of various projects including construction of the Softball and Soccer Fieldhouse and planning costs for the Zoe Conference and Retreat Center and a Recreation and Wellness Center. Construction in progress as of May 31, 2008, consisted of various projects including renovations to the Campus Center and new construction costs of the Hunter Welcome Center.

The University capitalized interest costs of $189,800 during the year ended May 31, 2009. No interest costs were capitalized during the year ended May 31, 2008.

NOTE E - LONG-TERM OBLIGATIONS

Long-term obligations as of May 31, 2009 and 2008, were as follows:

	2009	2008
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.	$ 8,275,000	$ 8,530,000
2001 - Higher Education Revenue Improvement Bonds; payable in semi-annual installments; maturing in fiscal year 2021; interest rate of 5.0%; secured by revenues.	6,909,138	7,320,799
2003 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2024; variable interest rate; secured by revenues.	7,595,817	7,968,194
2005 - Tax-exempt Lease; payable in semi-annual installments; maturing in fiscal year 2010; interest rate of 3.59%; secured by leased technology equipment.	270,906	532,364
2005 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	5,695,000	6,030,000
2005B - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	1,674,750	1,776,250
2006 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	4,528,252	6,229,031
2006B - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	2,290,958	2,422,954
2006 Taxable - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2026; variable interest rate; secured by revenues.	5,100,000	5,400,000
2009 - Higher Education Revenue Bonds; payable in semi-annual installments; maturing in fiscal year 2028; variable interest rate; secured by revenues.	9,750,000	-

NOTE E - LONG-TERM OBLIGATIONS - Continued

	2009	2008
Miscellaneous notes payable	$ 6,173,788	$ 3,128,068
Less discount on miscellaneous note payable	(102,978)	-
	$58,160,631	$49,337,660

Miscellaneous notes payable include a note with a face value of $1,097,076 that requires the imputation of interest at an effective rate of 4.06%.

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 30-day LIBOR rate plus 0.90% (1.16% as of May 31, 2009). 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 of $115,643, including interest at a fixed rate of 6.5%, 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.

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% (1.17% and 2.74% at May 31, 2009 and 2008, respectively). Principal and interest are amortized over the life of the debt and are payable semiannually.

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% (1.07% and 3.48% at May 31, 2009 and 2008, respectively). Principal and interest are amortized over the life of the debt and are payable semiannually.

NOTE E - LONG-TERM OBLIGATIONS - Continued

The variable rates for Series 2005, 2005B, and 2003 are based on 65% of the 30-day LIBOR rate plus 1.00% (1.27% and 2.84% as of May 31, 2009 and 2008, respectively). The variable rate for Series 2006 is based on 65% of the 30-day LIBOR rate plus 0.55% (0.82% and 2.39% as of May 31, 2009 and 2008, respectively). However, the University has obtained interest rate swap agreements on the 2003, 2005, 2006, 2006B, 2006 taxable, and 2009 debt issues (collectively "the Bond Agreements"). Refer to Note P for a further discussion of derivative instruments.

A schedule of future fiscal year principal payments of long-term obligations, excluding the 2005 Tax-exempt Lease, is as follows:

2010	$ 5,153,896
2011	4,493,070
2012	4,329,500
2013	3,792,896
2014	3,615,304
Thereafter	36,608,037
	57,992,703
Less discount on miscellaneous note payable	(102,978)
	$57,889,725

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, 2009 and 2008, the University was in compliance with all bond covenants.

The University leases technology equipment under the 2005 Tax-exempt Lease that expires in 2010 (the "Lease"). The lease obligation is recorded at the present value of the minimum lease payments. The gross amount of assets recorded under the Lease was $1,270,000 at May 31, 2009 and 2008. The carrying values of assets acquired under the lease were approximately $254,000 and $508,000 at May 31, 2009 and 2008, respectively. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under the lease obligation is included in depreciation expense.

A schedule of future minimum payments under the lease obligation at May 31, 2009, is as follows:

2010	$278,203
Less amount representing interest	(7,297)
Present value of future minimum lease payments	$270,906

Total interest expense for long-term obligations for the years ended May 31, 2009 and 2008, was $2,575,039 and $2,159,197, respectively.

NOTE F - NET ADVANCES ON LINES OF CREDIT

At May 31, 2009, the University had three line of credit agreements to provide operating cash flows. These lines have been established to maximize endowment earnings and facilitate cash management. On October 1, 2008, the University executed a line of credit agreement with Bank of America, N.A. (the "Vision Debt"), which matures on October 1, 2013, and provides for maximum borrowings of up to $20,000,000. For each draw request, the University has the option to pay interest at prime minus 1.75% or LIBOR plus 0.50% (0.82% at May 31, 2009). $2,800,000 was outstanding on the Vision Debt at May 31, 2009. The Vision Debt is subject to a pledge agreement that grants the lender a security interest in certain types of investment securities that are pledged as collateral for advances on the Vision Debt. The pledge agreement sets a maximum borrowing base ($5,158,609 at May 31, 2009) on the Vision Debt relative to the value of the securities pledged.

An agreement with First Financial Bank, Abilene (the "FFIN Line"), matures on September 30, 2009, and provides for maximum borrowings of up to $9,500,000 with interest payable at prime less 0.75% (2.50% and 4.25% at May 31, 2009 and 2008, respectively). An agreement with Bank of America, N.A. (the "BOA Line") matures on January 31, 2010, and provides for maximum borrowings of $8,000,000. For each new request, the University has the option to pay interest at prime or LIBOR plus 1.25% (1.92% and 2.74% at May 31, 2009 and 2008, respectively). $4,986,215 and $6,288,411 were outstanding on the FFIN Line at May 31, 2009 and 2008, respectively. $3,000,000 and $6,000,000 were outstanding on the BOA Line at May 31, 2009 and 2008, respectively. The FFIN and BOA Lines are unsecured.

Total interest expense for lines of credit for the years ended May 31, 2009 and 2008, was $304,752 and $709,684, respectively.

NOTE G - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets at May 31, 2009 and 2008, are listed below according to the purpose for which the income for these items is to be used:

	2009	2008
Student loans	$ 378,165	$ 704,547
Scholarships	55,836,411	54,847,281
Instruction, research, and divisional support	16,139,009	17,142,615
General operations	3,584,951	3,090,569
	75,938,536	75,785,012
Life income, student loan funds, and other accounts	11,460,130	21,801,018
	$87,398,666	$97,586,030

NOTE G - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES - Continued

Temporarily restricted net assets consist of the following at May 31, 2009 and 2008:

	2009	2008
Gifts and other unexpended revenues and gains available for:		
Student loans	$ 736,353	$ 792,601
Scholarships	31,938,245	66,854,437
Instruction, research, and divisional support	21,331,702	35,525,065
General operations and unappropriated earnings	10,493,691	10,541,834
Acquisition of property and equipment	3,267,913	4,512,553
	67,767,904	118,226,490
Life income, student loan funds, and other accounts	2,810,240	3,385,884
	$70,578,144	$121,612,374

NOTE H - ENDOWMENT

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

Interpretation of Relevant Law

The University interprets the State of Texas UPMIFA as allowing the University, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate so much of a donor-restricted endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. In the absence of explicit donor stipulations, the University designates 50% of endowment gifts to permanently restricted net assets and 50% to temporarily restricted net assets. The assets in the endowment fund remain restricted until appropriated for expenditure by the University.

The following factors are considered in making a determination to appropriate or accumulate donor restricted endowment funds: 1) The duration and preservation of the fund; 2) The purposes of the University and the donor restricted endowment fund; 3) General economic conditions; 4) The possible effect of inflation and deflation; 5) The expected total return from income and the appreciation of investments; 6) Other resources of the University; and 7) The investment policies of the University.

NOTE H – ENDOWMENT - Continued

Changes in endowment net assets for the year ended May 31, 2009, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 68,872,122	$113,713,936	$ 75,731,773	$258,317,831
Change in accounting principle due to SFAS 159	35,651,447	-	-	35,651,447
Contributions	-	1,964,121	1,964,121	3,928,242
Net investment income	7,758,669	940,380	-	8,699,049
Dividends and interest	458,015	1,235,109	-	1,693,124
Net realized and unrealized losses	(5,933,848)	(48,247,588)	(2,048,372)	(56,229,808)
Endowment support	(4,544,044)	(8,640,998)	-	(13,185,042)
Transfers	75,987	291,014	291,014	658,015
Endowment net assets, end of year	$102,338,348	$ 61,255,974	$ 75,938,536	$239,532,858

Changes in endowment net assets for the year ended May 31, 2008, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$127,413,602	$ 2,236,291	$121,676,826	$251,326,719
Net asset reclassification based on change in law	(62,481,114)	111,857,838	(49,376,724)	-
Contributions	-	-	2,914,473	2,914,473
Net investment income	10,748,635	-	-	10,748,635
Dividends and interest	1,956,318	-	-	1,956,318
Net realized and unrealized gains	3,178,411	-	-	3,178,411
Endowment support	(12,242,544)	(380,193)	-	(12,622,737)
Transfers	298,814	-	517,198	816,012
Endowment net assets, end of year	$ 68,872,122	$113,713,936	$ 75,731,773	$258,317,831

While all endowment assets are recorded at fair value at May 31, 2009, real estate and mineral interests at May 31, 2008, were 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 fair value of the real estate and mineral interests at May 31, 2008 to be substantially greater than the carrying value. The estimated fair value of major real estate holdings is determined by outside appraisals performed every 3 years. The 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, would have been $293,969,279.

NOTE H - ENDOWMENT - Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. The aggregate amount of funds that had fallen below their original gift value was $6,310,496 as of May 31, 2009. This decline resulted from unfavorable market fluctuations. There were no such deficiencies as of May 31, 2008.

Return Objective and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments include those assets of donor restricted funds that the University must hold in perpetuity or for a donor specified period as well as board designated funds. The University expects its endowment funds, over time, to provide an average rate of return in excess of 5.5% annually plus inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest, dividends, rents and royalties). The University targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for distribution each year an amount equal to 70% of an endowment's prior year distribution for spending, adjusted for inflation plus 1%, plus 30% of its beginning of year market value, times the target rate of 4.5%. Distributions are then limited to no less than 2% nor greater than 6% of beginning endowment market value and annual increases for an individual endowment to 7%. Accordingly, over time, the University expects the current spending policy to allow its endowment to grow at an average of at least 1% plus inflation annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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, 2009 and 2008:

	2009	2008
University and Foundation as trustee:		
Charitable trusts	$20,773,199	$44,524,600
Charitable gift annuities	889,825	1,223,154
	21,663,024	45,747,754
Third-party trustee	1,481,722	1,631,308
	$23,144,746	$47,379,062

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, 2009 and 2008, $477,502 and $463,018, respectively, was recorded as contribution revenue related to these types of agreements. 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 for the future cash flows, as of May 31, 2009 and 2008, was $13,681,662 and $27,330,907, 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 PLANS

The University has three defined contribution retirement plans, a 401(a) plan, a 401(k) plan, and a 403(b) plan covering substantially all full and part-time personnel. The University contributed 4% of the employee's salary as a match to the employee's contribution of 2% in the 401(a) plan. Employees were required to contribute 2% of salary to participate in the 401(k) plan for which the University contributed up to 4% of the employee's salary. Effective January 1, 2009, the 401(a) and 401(k) plans were frozen to new participants and new contributions. Employees are required to contribute 2% of salary to participate in the 403(b) plan for which the University contributes up to 4% of the employee's salary. Employees have the option of contributing an additional 1% or 2% of base pay into the 403(b) plan, for which the University contributes a corresponding 2% or 4% of the employee's salary. University contributions under the plans totaled $2,689,641 and $2,469,114 for the years ended May 31, 2009 and 2008, respectively.

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.

The University accounts for postretirement benefits other than pensions in accordance with 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:

	2009	2008
Accumulated postretirement benefit obligation	$(4,894,000)	$(4,585,200)
Plan assets at fair value	-	-
Unfunded status	$(4,894,000)	$(4,585,200)
Accrued postretirement benefit cost	$(4,894,000)	$(4,488,804)

NOTE K - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Approximate annual benefit costs for the year ended May 31:

	2009	2008
Net periodic postretirement benefit cost	$ 257,200	$ 257,196
Employer contributions	$ 372,600	$ 353,592
Plan participant contributions	30,400	35,020
Benefits paid	$ 403,000	$ 388,612

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 8.5% as of May 31, 2009, and is assumed to decrease gradually to 5.0% after seven years and remain at that level thereafter. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 6.5% at May 31, 2009.

The weighted average annual assumed rate of increase in the per capita cost of covered medical benefits is 9.0% as of May 31, 2008, and is assumed to decrease gradually to 5.0% 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 University expects to contribute $465,000 to the post-retirement benefit plan in fiscal year 2010. Benefits expected to be paid over the next five years and the five fiscal years thereafter are as follows:

2010	$ 465,000
2011	467,700
2012	475,000
2013	467,000
2014	464,900
2015-2019	2,257,900

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 $405,515 and $321,349 at May 31, 2009 and 2008, 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, 2009 and 2008, was $499,934 and $577,700, respectively. Future minimum rentals under the noncancellable leases as of May 31, 2009 are as follows:

Year ending May 31,	
2010	$103,731
2011	34,848
2012	34,838
2013	34,838
2014	34,838
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. Counterparty risks related to interest rate swap agreements are described in Note P. Management periodically monitors credit risk through the evaluation of the account's status and ability to repay.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

On June 1, 2008, the University adopted SFAS No. 157, *Fair Value Measurements,* ("SFAS 157"), which requires enhanced disclosures about investments that are measured and reported at fair value. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS 157 establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Foundation's investments and liabilities. The inputs are summarized in three levels as outlined below:

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Assets in this category generally include real estate and certain equity instruments. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets in this category generally include hedge funds of funds, private equity funds, managed long/short funds, privately held stock, other similar assets, and mineral interests. Liabilities in this category include the University's asset retirement obligation (see Note Q). These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The schedule below classifies the University's assets and liabilities carried at fair value based upon the three-tier hierarchy required by SFAS 157:

		Fair Value Measurements at May 31, 2009 Using		
Description	May 31, 2009	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds and investment partnerships managed by third parties	$172,025,772	$42,745,819	$21,591,222	$107,688,731
Notes receivable	332,504	-	332,504	-
Stocks and bonds	12,574,503	12,251,791	322,712	-
Real estate and mineral interests	55,018,424	-	14,863,215	40,155,209
Outside managed	1,833,731	-	1,833,731	-
Other investments	1,152,368	-	1,152,368	-
Total investments	$242,937,302	$54,997,610	$40,095,752	$147,843,940
Charitable trusts and annuities:				
Mutual funds and investment partnerships managed by third parties	$ 18,909,895	$18,909,895	$ -	$ -
Privately held stock	2,326,129	-	-	2,326,129
Real estate	427,000	-	427,000	-
Outside managed	1,481,722	-	1,481,722	-
Total charitable trusts and annuities	$ 23,144,746	$18,909,895	$ 1,908,722	$ 2,326,129

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The schedule below summarizes the current year activity for the items which have been classified as Level 3 assets:

	Investments			Charitable trusts and annuities
	Hedge funds of funds	Private equity	Mineral interests	Privately held stock
Beginning balance	$ 54,210,107	$ 63,579,218	$ 30,030	$18,229,388
Change in accounting principle due to SFAS 159	-	-	34,169,859	-
Total gains (losses):				
Included in realized/unrealized	(11,657,702)	(17,547,663)	5,955,320	(15,903,259)
Purchases, issuances, and redemptions	(2,687,340)	22,073,797	-	-
Transfers out	-	(281,686)	-	-
Ending balance	$ 39,865,065	$ 67,823,666	$40,155,209	$ 2,326,129

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents, Accounts Receivable, and Net Advances on Lines of Credit

The carrying amounts approximate fair value because of the short maturity of these instruments.

Contributions Receivable

The carrying amount approximates fair value as determined by discounting pledges at an appropriate discount rate commensurate with the risks involved.

Investments

The carrying amounts of money market funds, mutual funds, and marketable securities approximate fair value based on quoted market prices. The fair value of private equity instruments are determined in good faith by third party fund managers based on estimates of the underlying investments and appropriate market indices. The fair value of real estate is based on independent appraisals. The fair value of mineral interests is based on independent reserve analyses as well as internal analysis using management's knowledge of the properties.

Asset Retirement Obligation

The carrying amount of the asset retirement obligation approximates fair value as determined by discounted present value of expected cash flows based on internal analyses of costs associated with retiring properties similar to those on which the asset retirement obligation was calculated.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Reserve for Charitable Trusts and Annuities

The carrying amounts approximate fair value based on the discounted value of expected future cash flows.

Long-term Obligations

The fair value of long-term obligations at May 31, 2009 and 2008, was $57,794,988 and $48,800,251, respectively, as determined by discounting future cash flows at an appropriate rate commensurate with the risks involved.

NOTE P - DERIVATIVE INSTRUMENTS

The University entered into three interest rate swap agreements during fiscal year 2005, two interest rate swap agreements during fiscal year 2007, and one interest rate swap agreement in fiscal year 2009, each subject to a master netting arrangement with the lender for the debt instruments related to the swap agreements. The University accounts for these contracts in accordance with 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), and has designated 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 six 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%, 5) Series 2006B has been swapped to a fixed rate of 4.43%, and 6) Series 2009B has been swapped to a fixed rate of 3.88%.

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.

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.

NOTE P - DERIVATIVE INSTRUMENTS - Continued

The effectiveness of the swaps is judged by comparing the interest rates and key terms of the swaps with the interest rates and key terms on the underlying debt. The key terms of the swaps identically match the key terms of the floating rate debt and are, therefore, expected to perfectly offset the hedged cash flows of the debt. Management believes the swaps are fully effective as of May 31, 2009 and 2008; therefore, no gain or loss relating to the swaps is reflected in the consolidated statements of activities.

NOTE Q - ASSET RETIREMENT OBLIGATION

The University re-evaluated the estimated costs associated to remediate its asset retirement obligation (ARO) in 2008 and determined that the costs should be reduced by approximately $5,087,000. 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 in 2008 and a net decrease to property and equipment of approximately $246,000 in 2008. The asset retirement obligation is included in deposits and other liabilities in the accompanying consolidated statements of financial position.

The following presents a reconciliation of the asset retirement obligations at May 31, 2009 and 2008:

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
Payments of asset retirement obligation	(34,262)
Accretion expense	105,139
Asset retirement obligations at May 31, 2009	$ 2,116,844

NOTE R - RELATED PARTY TRANSACTION

The University had an unsecured receivable from a related party of $212,227 and $348,013 at May 31, 2009 and 2008, respectively.