

***DRAKE UNIVERSITY***

***Financial Statements as of and for the  
Years Ended May 31, 2008 and  
2007 and Independent Auditors'  
Report***

# DRAKE UNIVERSITY

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2-3
Statements of Activities	4-5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-20

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Drake University  
Des Moines, Iowa

We have audited the accompanying statements of financial position of Drake University (the "University") as of May 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, such financial statements present fairly, in all material respects, the financial position of Drake University, as of May 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

October 6, 2008

# DRAKE UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION MAY 31, 2008 AND 2007

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 14,863,086	\$ 7,270,894
Student accounts receivable and notes receivable, net of allowance of \$250,000 in 2008 and \$175,000 in 2007	4,712,020	3,586,313
U.S. government receivables	1,146,070	689,475
Prepaid expenses and inventories	634,745	539,028
Contributions receivable, net	7,994,748	3,969,175
Other assets	1,822,181	2,303,149
U.S. government loans receivable, net of allowance of \$200,000 in 2008 and \$126,000 in 2007	14,944,270	13,752,218
Investments:		
Money market accounts, commercial paper, certificates of deposit, and common collective trust funds	5,290,585	15,203,160
Bonds	27,459,928	29,633,931
Common stocks and mutual funds	111,381,505	152,722,187
Cash surrender value of life insurance policies	4,436,176	4,477,190
Limited partnership and similar nonmarketable equity interests	27,573,971	-
Real estate	<u>8,154,780</u>	<u>7,963,388</u>
Total investments	<u>184,296,945</u>	<u>209,999,856</u>
Unexpended bond funds	<u>8,122,866</u>	<u>20,772,602</u>
Land, buildings, and equipment:		
Land	18,912,498	17,415,747
Buildings	152,759,891	135,710,703
Equipment	48,801,559	45,789,371
Construction in progress	<u>2,353,425</u>	<u>4,770,870</u>
	222,827,373	203,686,691
Less accumulated depreciation	<u>(71,523,099)</u>	<u>(66,061,817)</u>
Land, buildings, and equipment, net	<u>151,304,274</u>	<u>137,624,874</u>
Funds held in trust by others	<u>9,938,860</u>	<u>10,468,200</u>
<b>TOTAL ASSETS</b>	<u>\$ 399,780,065</u>	<u>\$ 410,975,784</u>

(continued)

# DRAKE UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION MAY 31, 2008 AND 2007

---

<b>LIABILITIES AND NET ASSETS</b>	<b>2008</b>	<b>2007</b>
Liabilities:		
Accounts payable and accrued expenses	\$ 10,672,139	\$ 10,595,878
Student deposits and deferred income	7,504,089	6,673,736
Other liabilities	4,000,682	2,702,199
Annuities payable	22,270,455	30,547,725
Bonds payable	68,290,000	70,490,000
Accrued post-retirement benefit obligation	14,263,321	14,263,321
U. S. government grants refundable	<u>11,739,011</u>	<u>11,758,565</u>
 Total liabilities	 <u>138,739,697</u>	 <u>147,031,424</u>
Net assets:		
Unrestricted	148,287,831	154,212,721
Temporarily restricted	28,530,177	28,717,272
Permanently restricted	<u>84,222,360</u>	<u>81,014,367</u>
 Total net assets	 <u>261,040,368</u>	 <u>263,944,360</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 399,780,065</u>	 <u>\$ 410,975,784</u>

(concluded)

See notes to financial statements.

# DRAKE UNIVERSITY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES:</b>				
Revenue, gains and other support:				
Student tuition and fees	\$ 110,288,171	\$ -	\$ -	\$ 110,288,171
Less scholarships and fellowships	(42,205,483)	-	-	(42,205,483)
Net student tuition and fees	<u>68,082,688</u>	<u>-</u>	<u>-</u>	<u>68,082,688</u>
Government grants and contracts	9,916,961	-	-	9,916,961
Private grants and contracts	148,015	1,153,387	-	1,301,402
Private gifts	3,097,660	2,253,973	-	5,351,633
Endowment income used in operations	5,000,000	-	-	5,000,000
Sales and services of auxiliary enterprises	19,933,920	-	-	19,933,920
Other income, net	2,800,794	-	-	2,800,794
Net assets released from restriction	<u>2,974,162</u>	<u>(2,974,162)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>111,954,200</u>	<u>433,198</u>	<u>-</u>	<u>112,387,398</u>
<b>OPERATING EXPENSES:</b>				
Instruction	33,427,628	-	-	33,427,628
Public service	10,013,205	-	-	10,013,205
Academic support	17,470,681	-	-	17,470,681
Student services	9,270,151	-	-	9,270,151
Institutional support	12,719,927	-	-	12,719,927
Auxiliary enterprises	<u>26,420,961</u>	<u>-</u>	<u>-</u>	<u>26,420,961</u>
Total operating expenses	<u>109,322,553</u>	<u>-</u>	<u>-</u>	<u>109,322,553</u>
Change in net assets from operations	<u>2,631,647</u>	<u>433,198</u>	<u>-</u>	<u>3,064,845</u>
<b>NONOPERATING ACTIVITIES:</b>				
Contributions for nonoperating purposes	567,712	4,967,452	3,618,548	9,153,712
Net unrealized losses from investments	(14,799,751)	(7,691,083)	-	(22,490,834)
Reinvested net gains and income from investments	6,620,569	5,958,947	5,549	12,585,065
Change in value of split interest agreements	-	(2,441,970)	(419,062)	(2,861,032)
Loss on disposal of property and equipment	(531,527)	-	-	(531,527)
Change in fair value of interest rate swap agreements	(1,827,179)	-	-	(1,827,179)
Other nonoperating activities	-	-	2,958	2,958
Net assets released from restriction	<u>1,413,639</u>	<u>(1,413,639)</u>	<u>-</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>(8,556,537)</u>	<u>(620,293)</u>	<u>3,207,993</u>	<u>(5,968,837)</u>
CHANGE IN NET ASSETS	(5,924,890)	(187,095)	3,207,993	(2,903,992)
NET ASSETS AT BEGINNING OF YEAR	<u>154,212,721</u>	<u>28,717,272</u>	<u>81,014,367</u>	<u>263,944,360</u>
NET ASSETS AT END OF YEAR	<u>\$ 148,287,831</u>	<u>\$ 28,530,177</u>	<u>\$ 84,222,360</u>	<u>\$ 261,040,368</u>

See notes to financial statements.

# DRAKE UNIVERSITY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES:</b>				
Revenue, gains and other support:				
Student tuition and fees	\$ 102,723,441	\$ -	\$ -	\$ 102,723,441
Less scholarships and fellowships	(37,628,066)	-	-	(37,628,066)
Net student tuition and fees	65,095,375	-	-	65,095,375
Government grants and contracts	9,883,447	-	-	9,883,447
Private grants and contracts	49,403	1,097,759	-	1,147,162
Private gifts	2,947,771	2,792,545	-	5,740,316
Endowment income used in operations	5,900,000	-	-	5,900,000
Sales and services of auxiliary enterprises	17,661,551	-	-	17,661,551
Other income, net	2,135,403	-	-	2,135,403
Net assets released from restriction	3,248,281	(3,248,281)	-	-
Total operating revenues	106,921,231	642,023	-	107,563,254
<b>OPERATING EXPENSES:</b>				
Instruction	31,201,036	-	-	31,201,036
Public service	10,078,144	-	-	10,078,144
Academic support	15,669,493	-	-	15,669,493
Student services	8,859,105	-	-	8,859,105
Institutional support	14,246,995	-	-	14,246,995
Auxiliary enterprises	24,779,845	-	-	24,779,845
Total operating expenses	104,834,618	-	-	104,834,618
Change in net assets from operations	2,086,613	642,023	-	2,728,636
<b>NONOPERATING ACTIVITIES:</b>				
Contributions for nonoperating purposes	553,423	1,870,945	7,454,510	9,878,878
Net unrealized gains from investments	16,780,419	4,437,953	-	21,218,372
Reinvested net gains and income from investments	787,505	4,630,846	5,180	5,423,531
Change in value of split interest agreements	-	(3,097,394)	(304,271)	(3,401,665)
Loss on disposal of property and equipment	(583,754)	-	-	(583,754)
Change in fair value of interest rate swap agreements	(532,529)	-	-	(532,529)
Other nonoperating activities	-	-	4,281	4,281
Net assets released from restriction	6,118,555	(6,118,555)	-	-
Change in net assets from nonoperating activities	23,123,619	1,723,795	7,159,700	32,007,114
CHANGE IN NET ASSETS	25,210,232	2,365,818	7,159,700	34,735,750
NET ASSETS AT BEGINNING OF YEAR	129,002,489	26,351,454	73,854,667	229,208,610
NET ASSETS AT END OF YEAR	\$ 154,212,721	\$ 28,717,272	\$ 81,014,367	\$ 263,944,360

See notes to financial statements.

# DRAKE UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,903,992)	\$ 34,735,750
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,105,555	6,641,136
Net unrealized losses (gains) from investments	22,490,834	(21,218,372)
Change in fair value of interest rate swap agreements	1,827,179	532,529
Net realized gains from investments	(13,727,845)	(6,440,913)
Loss on disposal of property and equipment	531,527	583,754
Change in value of split interest agreements	2,861,032	3,401,665
Contributions restricted for long-term investment	(3,618,548)	(7,454,510)
Income restricted for long-term investment	(5,549)	(5,180)
Noncash contributions of investments	(638,552)	(5,262,041)
Change in:		
Student accounts, notes and U.S. government receivables	(1,582,302)	(86,837)
Prepaid expenses and inventories	(95,717)	45,091
Contributions receivable	(4,025,573)	560,394
Other assets	(232,167)	(43,500)
Accounts payable and accrued expenses	(850,841)	1,326,027
Student deposits and deferred income	830,353	520,677
Other liabilities	18,379	1,228,785
Accrued post-retirement benefit obligation	-	2,383,215
Net cash provided by operating activities	<u>6,983,773</u>	<u>11,447,670</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(99,867,742)	(112,505,122)
Proceeds from sales and maturities of investments	130,816,684	104,165,467
Purchases of property and equipment	(19,236,470)	(17,477,155)
Proceeds from sales of property and equipment	13,150	18,050
Issuance of U. S. government loans receivable	(3,187,446)	(3,005,846)
Payments from U. S. government loans receivable	1,995,394	3,079,586
Net real estate and contracts receivable activity	<u>(191,392)</u>	<u>(1,582,694)</u>
Net cash provided by (used in) investing activities	<u>10,342,178</u>	<u>(27,307,714)</u>

(continued)

# DRAKE UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	-	(5,803,571)
Issuance of bonds payable	42,700,000	22,020,000
Refunding of bonds payable	(42,425,000)	-
Payments on bonds payable	(2,475,000)	(1,040,000)
Payments to annuitants	(11,138,302)	(10,800,692)
Contributions restricted for long-term investment	3,618,548	7,454,510
Income restricted for long-term investment	5,549	5,180
Increase in U. S. government grants refundable, net	(19,554)	(56,344)
Net cash provided by (used in) financing activities	<u>(9,733,759)</u>	<u>11,779,083</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,592,192	(4,080,961)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	<u>7,270,894</u>	<u>11,351,855</u>
END OF YEAR	<u>\$ 14,863,086</u>	<u>\$ 7,270,894</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 3,233,148</u>	<u>\$ 2,179,920</u>

(concluded)

See notes to financial statements.

# DRAKE UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations** - Drake University (the "University") is an independent, private, coeducational university in Des Moines, Iowa, serving primarily students from the Midwest. The University is accredited as a member of the North Central Association of Colleges and Universities.

The University's mission is to provide an exceptional learning environment that prepares students for meaningful personal lives, professional accomplishments, and responsible global citizenship. The Drake University experience is distinguished by collaborative learning among students, faculty, and staff and by the integration of the liberal arts and sciences with professional preparation.

Drake University has been on the approved list of the North Central Association of Colleges and Schools since that association was established in 1913. Since reorganization of the Association in 2000, Drake University is accredited by the Higher Learning Commission and a member of the North Central Association and Schools. In 2008, the University's accredited status was continued by the Higher Learning Commission without any need for follow-up reports or focused visits. Having fully met the accreditation standards of the commission, the University is scheduled to have its next comprehensive team visit in 2017-18.

**Basis of Presentation** - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

*Unrestricted* - net assets that are not subject to donor-imposed restrictions.

*Temporarily Restricted* - net assets subject to donor-imposed restrictions that may or will be met either by actions of the University and/or the passage of time.

*Permanently Restricted* - net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the University 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.

Contributions, including unconditional promises to give, are recognized as revenue 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 within the same year as received are reported as revenues of the temporarily restricted net asset class. 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 to be received after one year are discounted at a risk-free rate. Amortization of discounts 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, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net unrealized and realized gains on investments and income from investments are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that it 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.
- As increases in unrestricted net assets in all other cases.

***Operating and Nonoperating Activities*** - The statements of activities reports the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all the activity of the University except for certain items specifically considered to be of a nonoperating nature. Contributions included in nonoperating activities consist of bequests and other unrestricted gifts not solicited as part of the annual fundraising campaigns, gifts restricted for the acquisition of capital assets, and gifts restricted to endowment funds. Nonoperating activities also include realized and unrealized gains/losses on investments, endowment income not used in operations, change in net present value of split interest agreements, change in fair value of interest rate swap agreements, and significant items of an unusual or nonrecurring nature.

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

***Cash and Cash Equivalents*** - Cash and cash equivalents include interest-bearing money market accounts, repurchase agreements, and short-term investments with a maturity of three months or less at the date of purchase that are available for current operating purposes.

***Income Taxes*** - The University has received a tax determination letter from the IRS indicating it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") as a charitable educational institution. As such, the University is taxed only on any net unrelated business income under Section 511 of the Code.

***Inventories*** - Inventories of the University, primarily composed of printing supplies and physical plant items, are stated at the lower of cost (first-in, first-out) or market.

**Investments** - Investments in commercial paper, bonds, common stocks, and mutual funds are recorded at fair value, with gains and losses included in the statements of activities. Common collective trust funds are stated at fair value as determined by the issuer of the common/collective trust funds based on the fair market value of the underlying investments. The fair values of limited partnerships and similar nonmarketable equity interests which invest in both publicly or privately owned securities are based on estimates and assumptions of general partners or partnership valuation committees in the absence of readily determined market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments', and other pertinent information.

Direct investments in real estate are stated at historical cost. Expenditures for building improvements which substantially extend the useful life of an asset are capitalized.

At May 31, 2008, the University had an investment balance in one stock index fund of approximately \$28,004,000 which accounted for 15% of its total investments. At May 31, 2007, the University had an investment balance in one stock index fund of approximately \$45,578,000 which accounted for 22% of its total investments. No other individual investment accounted for more than 10% of total investments at May 31, 2008 and 2007.

**Split Interest Agreements** - The University has a number of split interest agreements with individuals that generally require annuity payments to these individuals in exchange for property, securities, or cash. The assets in the split interest agreements are stated at fair value in the University's financial statements. These assets total approximately \$41,226,000 and \$53,683,000 at May 31, 2008 and 2007, respectively, and are included in "Investments" in the statements of financial position. The University's liability to the annuitants is recorded based on the present value of the expected payments using discount rates between 5.4% and 11.5% as of May 31, 2008 and 2007. Annuities payable total approximately \$22,270,000 and \$30,548,000 at May 31, 2008 and 2007, respectively.

**Insurance Policies** - Insurance policies donated to the University are recorded at the cash surrender value of the policy and adjusted annually for increases in such values. Certain insurance policies require premium payments over several years.

**Land, Buildings, and Equipment** - Land, buildings, and equipment are stated at cost or, if received by gift, at the market or appraised value at the date of gift. Depreciation is provided on the straight-line basis over estimated useful lives ranging from 5 to 50 years.

Expenditures for new equipment, buildings, and improvements which substantially extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. The University capitalizes interest on major projects during construction and amortizes the amounts over the related assets' estimated useful lives. Capitalized interest was approximately \$965,000 and \$0 for the years ended May 31, 2008 and 2007, respectively. Costs incurred for building materials and equipment comprises construction in progress.

**Funds Held in Trust by Others** - Funds held in trust by others are recorded at fair value. These investments, which are not in the possession or under the control of the University, are administered by outside fiscal agents, with the University deriving income from the investments as stipulated by the various gift instruments.

**U.S. Government Grants Refundable** - Funds provided by the U.S. government under the Federal Perkins Loan and Health Professions Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the U.S. government and are included as a liability in the statements of financial position.

***Fair Value of Financial Instruments*** - Financial instruments are generally described as cash, contractual obligations or rights to pay or receive cash. The carrying amount approximates fair value for certain financial instruments because of the short-term maturity of these instruments, which include cash and cash equivalents, accounts receivable, U.S. government receivables, accounts payable, and student deposits.

Fair value estimates are made at a specific point in time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Non-real estate investments are recorded at fair value primarily as determined by values provided by external investment managers or quoted market prices.

Common collective trust funds are stated at fair value as determined by the issuer of the common/collective trust funds based on the fair market value of the underlying investments. Common collective trust funds with underlying investments in investment contracts are valued at fair market value of the underlying investments and then adjusted by the issuer to contract value.

U.S. government loans receivable and U.S. government grants refundable are not saleable and can only be assigned to the U.S. Government or its designees. The carrying value approximates fair value.

The carrying value of notes receivable approximates fair value because the notes bear interest at rates which approximate current rates the University could obtain on notes with similar maturities and credit qualities.

The estimated fair value of bonds payable was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the University for debt of similar original maturity. The carrying value of the University's bonds payable was approximately \$68,290,000 and \$70,490,000 at May 31, 2008 and 2007, respectively; the fair value was approximately \$69,765,000 and \$71,212,000 at May 31, 2008 and 2007, respectively.

***Derivative Financial Instruments*** - From time to time, the University enters into interest rate swap agreements to modify the interest rate characteristics of its outstanding debt from floating to fixed. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the University accounts for derivative instruments, including derivative instruments embedded in other contracts. SFAS No. 133 requires that derivative instruments be measured at fair value and reported as assets or liabilities in the statements of financial position. Changes in the fair value of derivatives during the year are reported in the statements of activities. The University's interest rate swap agreements are considered derivative financial instruments and have been reported as other liabilities in the statements of financial position at fair value. The net change in the fair value of the agreements during the year is reported as an unrealized gain/loss in the nonoperating activities section of the statements of activities. The net cash received or paid under the terms of the interest rate swap agreements over their term are reported as a component of interest expense.

***Tuition Discounting*** - The University maintains a policy of offering qualified applicants admission to the University without regard to financial circumstances. The University provides institutional financial aid to those admitted on the basis of merit or need in the form of direct scholarships, grants, or employment during the academic year. Tuition and fees have been discounted by institutional aid in the amount of approximately \$42,205,000 and \$37,628,000 for the years ended May 31, 2008 and 2007, respectively.

**Fund-Raising Expenses** - Fund-raising expenses for the University consist of development expenses, capital campaign costs, and alumni relations. Total fund-raising expenses for the years ended May 31, 2008 and 2007, were approximately \$3,287,000 and \$3,088,000, respectively.

**Auxiliary Enterprises** - The University's auxiliary enterprises exist primarily to furnish good and services to students. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, parking, and intercollegiate athletics. Auxiliary enterprise revenues and expenses are reported as changes in unrestricted net assets.

**Accrued Post-Retirement Benefit Obligation** - The University follows Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize in its statements of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. In addition, SFAS No. 158 requires that the measurement date of the plan obligation coincide with an employer's fiscal year-end.

**Recent Accounting Pronouncement** - In August 2008, FASB issued the final FASB Staff Position (FSP) No. 117-1 *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to and Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FSP also improves disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The UPMIFA was enacted in Iowa in 2008. FSP 117-1 is effective for fiscal years beginning after December 15, 2008. The University is assessing the impact of FSP 117-1 on its financial statements.

## 2. CONTRIBUTIONS RECEIVABLE, NET

Net contributions receivable at May 31, 2008 and 2007, are summarized as follows:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	\$2,452,211	\$1,855,928
One year to five years	7,134,208	2,552,422
Over five years	<u>1,370,000</u>	<u>683,750</u>
	10,956,419	5,092,100
Less:		
Unamortized discount on contributions receivable (3.0%-6.3%)	(1,819,564)	(555,900)
Allowance for uncollectible contributions	<u>(1,142,107)</u>	<u>(567,025)</u>
Contributions receivable, net	<u>\$7,994,748</u>	<u>\$3,969,175</u>

Contributions receivable are distributed between net asset classifications as follows at May 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Temporarily restricted for:		
Operating purposes	\$ 62,699	\$ 105,798
Capital projects	4,900,315	2,057,172
Other	<u>1,490,973</u>	<u>1,420,297</u>
	6,453,987	3,583,267
Permanently restricted for endowment	<u>1,540,761</u>	<u>385,908</u>
Contributions receivable, net	<u>\$7,994,748</u>	<u>\$3,969,175</u>

### 3. INVESTMENT INCOME (LOSS)

For the years ended May 31, 2008 and 2007, investment income (loss) consisted of the following:

	<b>2008</b>	<b>2007</b>
Interest, rents, and dividends	\$ 4,524,650	\$ 5,570,078
Net realized gains from investments	13,727,845	6,440,913
Investment expenses	<u>(667,430)</u>	<u>(687,460)</u>
Investment income, net	17,585,065	11,323,531
Net unrealized gains (losses) from investments	<u>(22,490,834)</u>	<u>21,218,372</u>
Total investment income (loss)	<u>\$ (4,905,769)</u>	<u>\$32,541,903</u>

For the years ended May 31, 2008 and 2007, as reflected in the statements of activities, investment income was as follows:

	<b>2008</b>	<b>2007</b>
Operating revenues:		
Endowment income used in operations	\$ 5,000,000	\$ 5,900,000
Nonoperating activities:		
Net unrealized gains (losses) from investments	(22,490,834)	21,218,372
Reinvested net gains and income from investments	<u>12,585,065</u>	<u>5,423,531</u>
Total investment income (loss)	<u>\$ (4,905,769)</u>	<u>\$32,541,903</u>

#### 4. BONDS PAYABLE

Bonds payable at May 31, 2008 and 2007 are as follows:

	2008	2007
<b>Series 1996</b> - Private College Refunding Revenue Bonds. 5.50-5.75% fixed rate bonds maturing serially on December 1 through 2008, as well as 6.5%, term bonds maturing December 1, 2011. The balance in the sinking fund at May 31, 2008 and 2007 was \$691,875 and \$700,750 respectively. A surety bond has been purchased to cover the debt service reserve requirement. As of May 31, 2008 and 2007, the bond interest rate was 5.75% and 5.50%, respectively.	\$ 4,645,000	\$ 5,695,000
<b>Series 2005</b> - Adjustable Rate Revenue Refunding Bonds. Auction rate securities maturing April 1, 2031. The bond interest rate as of May 31, 2007 was 3.89%. These bonds were refunded to variable rate demand bonds during 2008.	-	42,775,000
<b>Series 2007</b> - Private University Revenue Bonds maturing serially on April 1, 2022. The bond interest rates are from 4.0% to 5.0%. Loaned pursuant to the Series 2005 bond agreement as amended April 1, 2007. As of May 31, 2008 and 2007, the bond interest rate was 4.00%.	20,945,000	22,020,000
<b>Series 2008</b> - Private College Revenue Refunding Bonds. Variable rate demand bonds maturing April 1, 2031. The interest rate as of May 31, 2008 was 4.57%.	<u>42,700,000</u>	<u>-</u>
	68,290,000	70,490,000
Less current portion	<u>(2,970,000)</u>	<u>(2,475,000)</u>
Bonds payable, long-term	<u>\$ 65,320,000</u>	<u>\$ 68,015,000</u>

The University's bonds are secured by mortgage and security agreements as defined in the Indenture Agreements. As of May 31, 2008 and 2007, the University was not in violation of any of the restrictive covenants set forth in the Bond and Indenture Agreements.

Reserve fund accounts totaling approximately \$720,900 and \$1,082,000 at May 31, 2008 and 2007, respectively, are included in "Investments" in the statements of financial position.

Maturities on bonds payable of the University subsequent to May 31, 2008 are as follows:

2009	\$ 2,970,000
2010	2,720,000
2011	5,870,000
2012	3,045,000
2013	3,200,000
Thereafter	<u>50,485,000</u>
	<u>\$ 68,290,000</u>

The University incurred interest expense of approximately \$2,257,000 and \$2,184,000 for the years ended May 31, 2008 and 2007, respectively.

***Interest Rate Swap Agreements:***

In order to minimize the impact of interest rate changes, the University has entered into three interest rate swap agreements. Under the terms of the interest rate swaps, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The terms of the swap transactions are aligned with the underlying bond maturities.

The asset (liability) under interest rate swap agreements at May 31, 2008 and 2007 is as follows:

	<b>2008</b>	<b>2007</b>
Series 2001 (refunded into Series 2005/2008) notional amount of \$12,000,000 at 4.49%	\$ (2,004,000)	\$ (1,327,000)
Series 2003 (refunded into Series 2005/2008) notional amount of \$11,500,000 at 3.29%	(53,000)	415,000
Series 1996 refunded into Series 2005/2008) notional amount of \$16,365,000 at 3.48%	<u>(494,000)</u>	<u>187,000</u>
	<u>\$ (2,551,000)</u>	<u>\$ (725,000)</u>

**5. CONSTRUCTION IN PROGRESS**

Projects in process at May 31, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
Quad Residence Hall Renovation (2007 bond issue)	\$ 2,120,531	\$ 4,091,080
28th Street Pedestrian Walkway Project (DOT)	124,411	-
Morehouse Residence Hall Renovation	-	142,750
Harvey Ingham Science Hall Renovation	-	170,570
Other	<u>108,483</u>	<u>366,470</u>
	<u>\$ 2,353,425</u>	<u>\$ 4,770,870</u>

**6. ENDOWMENT**

The University's endowment consists of donor gifts (permanently restricted) plus other Board designated funds (unrestricted) which are deemed to be held and invested in perpetuity. The Board of Trustees approves a spending policy annually for the endowment.

The endowment investment activity consisted of the following for the years ended May 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Beginning balance	<u>\$ 153,336,248</u>	<u>\$ 128,768,203</u>
Total gifts	2,926,407	7,978,402
Total other changes	(1,384,944)	1,582,027
Return on investment:		
Interest and dividends	2,995,250	3,155,491
Management and custodial fees	(321,089)	(332,479)
Net realized gains from investments	7,882,907	2,913,752
Net unrealized (losses) gains from investments	<u>(14,217,531)</u>	<u>15,170,852</u>
Total	(3,660,463)	20,907,616
Endowment income used in operations	<u>(5,000,000)</u>	<u>(5,900,000)</u>
Endowment return net of amounts used in operations	<u>(8,660,463)</u>	<u>15,007,616</u>
Ending balance	<u>\$ 146,217,248</u>	<u>\$ 153,336,248</u>

#### 7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<b>2008</b>	<b>2007</b>
Unexpended contributions for restricted purposes	\$ 2,543,072	\$ 2,182,466
Contributions for capital asset acquisition	1,468,462	708,517
Annuity and life income	18,064,656	22,243,022
Contributions receivable	<u>6,453,987</u>	<u>3,583,267</u>
Total temporarily restricted net assets	<u>\$28,530,177</u>	<u>\$28,717,272</u>

Permanently restricted net assets consisted of the following at May 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Student loans	\$ 515,533	\$ 492,426
Endowment	72,166,324	69,269,774
Annuity and life income	60,882	398,059
Funds held in trust by others	9,938,860	10,468,200
Contributions receivable	<u>1,540,761</u>	<u>385,908</u>
Total permanently restricted net assets	<u>\$84,222,360</u>	<u>\$81,014,367</u>

## 8. RETIREMENT BENEFITS

The University is a participant in the Teachers Insurance and Annuity Association – College Retirement Equity Fund (“TIAA-CREF”), which is a defined contribution plan. TIAA-CREF does not segregate the assets, liabilities, or costs by participating employer, since the accounts are maintained on an employee-basis only. Total pension expense for the years ended May 31, 2008 and 2007, was approximately \$3,241,000 and \$3,073,000, respectively. Accrued pension costs are funded on a current basis.

In addition to providing pension benefits, the University provides certain health care insurance benefits for retired employees. Substantially all of the University’s employees who were hired prior to September 15, 1994, may become eligible for those benefits if they reach normal retirement age while working for the University or have elected to take early retirement under voluntary early retirement agreements. Employees hired after September 15, 1994 may elect to participate in the health care plans at their own cost. The plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features, such as deductibles and coinsurance. The University’s policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

During the year ended May 31, 2007, the University implemented the recognition provision of SFAS No. 158. As a result, the University recognized an unrealized actuarial loss of \$1,797,546. This item is included in the institutional support line of the consolidated statements of activities and changes in net assets.

The measurement date for the postretirement benefit plan is May 31. The following tables set forth the plan’s benefit obligation, accrued liability, components of net periodic benefit costs, and weighted average actuarial assumptions as of May 31, 2008 and 2007:

	2008	2007
<b>Change in Benefit Obligation:</b>		
Benefit obligation at beginning of year	\$ 14,263,321	\$ 14,069,972
Service cost	210,409	193,216
Interest cost	832,050	854,602
Actuarial gain	(250,838)	(61,777)
Benefits paid	<u>(791,621)</u>	<u>(792,692)</u>
Benefit obligation at end of year	<u>\$ 14,263,321</u>	<u>\$ 14,263,321</u>
	<b>2008</b>	<b>2007</b>
<b>Change in Plan Assets:</b>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	791,621	792,692
Benefits paid	<u>(791,621)</u>	<u>(792,692)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

	2008	2007
<b>Reconciliation of the Accrued Liability:</b>		
Funded status	\$ 14,263,321	\$ 14,263,321
Unrecognized accumulated net loss	-	(2,686,201)
Unrecognized translation obligation	-	(107,418)
Unrecognized prior service cost	-	996,073
	<hr/>	<hr/>
Accrued postretirement benefit obligation before effect of SFAS No. 158 adoption	14,263,321	12,465,775
Effect of SFAS No. 158 adoption	-	1,797,546
	<hr/>	<hr/>
Accrued balance sheet liability at end of year	<u>\$ 14,263,321</u>	<u>\$ 14,263,321</u>

	2008	2007
<b>Components of Net Periodic Benefit Cost:</b>		
Service cost	\$ 210,409	\$ 193,216
Interest cost	832,050	854,602
Amortization of loss	333,975	421,501
Amortization of prior service cost	(108,861)	(108,861)
Amortization of transition obligation	17,903	17,903
	<hr/>	<hr/>
Net periodic benefit cost	<u>\$ 1,285,476</u>	<u>\$ 1,378,361</u>

	2008	2007
<b>Actuarial Assumptions:</b>		
Discount rate	6.00 %	6.00 %
Healthcare cost present trend rate	8.00 %	9.00 %
Healthcare cost ultimate trend rate (year of stabilization)	5.00% (2012)	5.00% (2011)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 123,995	\$ (108,431)
Effect on post-retirement benefit obligations	1,516,045	(1,279,426)

### ***Cash Contributions and Benefit Payments***

The University's postretirement benefits are unfunded, therefore cash contributions for postretirement benefits are equal to the benefit payments.

The following table details the expected cash contributions and benefit payments for 2009 through 2018:

2009	\$ 815,343
2010	860,883
2011	882,405
2012	895,890
2013	892,222
Years 2014-2018	4,810,501

All benefit payments for other postretirement benefits are voluntary, as the postretirement plans are not funded, and are not subject to any minimum regulatory funding requirements. Benefit payments for each year represent claims paid for medical expenses, and the University anticipates the 2009 postretirement benefit payments will be made from cash generated from operations.

### ***Asset Allocation***

The University's postretirement plan is fully unfunded as of May 31, 2008.

## **9. ASSET RETIREMENT OBLIGATIONS**

The University records an asset retirement obligation ("ARO") for legal obligations related to the retirement of long-lived physical assets. The University estimates its ARO liabilities based upon a third party estimate of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation and discounted at a credit-adjusted, risk-free rate. The University then records an ARO asset associated with the liability. The ARO assets are depreciated over their expected lives, and the ARO liabilities are accreted to the projected spending date. Changes in estimates could occur due to plan revisions, changes in estimated costs, or changes in timing of the performance of removal activities.

The University follows FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143* ("FIN 47"). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and / or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, the University is required to recognize a liability for the fair value of a conditional ARO if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional ARO should be factored into the measurement of the liability when sufficient information exists.

The change in the balance of the total ARO liability which is recorded in other liabilities in the accompanying statements of financial position is summarized as follows:

Balance as of June 1, 2007	\$ 1,223,287
Accretion	<u>55,282</u>
Balance as of May 31, 2008	<u>\$ 1,278,569</u>

## 10. ALLOCATION OF CERTAIN EXPENSES

The University allocates operation and maintenance of plant, depreciation, amortization, and FIN 47, and interest expense based on proportional expenditures using estimates of building square footage and the functional use of each facility financed by debt. For the years ended May 31, 2008 and 2007, the following allocation of expenses was included in the accompanying Statement of Activities:

	<b>2008</b>			
	<b>Operation and Maintenance</b>	<b>Depreciation, Amortization, and FIN47</b>	<b>Interest Expense</b>	<b>Total</b>
Instruction	\$ 2,031,622	\$ 1,720,031	\$ 62,483	\$ 3,814,136
Public Service	142,244	119,895	-	262,139
Academic Support	624,422	554,582	344,354	1,523,358
Student Services	315,574	264,741	54,753	635,068
Institutional Support	468,222	398,050	67,567	933,839
Auxiliary Enterprises	<u>3,522,424</u>	<u>3,032,858</u>	<u>1,253,771</u>	<u>7,809,053</u>
	<u>\$ 7,104,508</u>	<u>\$ 6,090,157</u>	<u>\$ 1,782,928</u>	<u>\$ 14,977,593</u>

The University has a process of allocating other costs through the operation and maintenance process. Included in the operation and maintenance headings above are depreciation, amortization, and FIN 47 expense and interest expense of approximate \$15,000 and \$474,000, respectively, for the year ended May 31, 2008.

	<b>2007</b>			
	<b>Operation and Maintenance</b>	<b>Depreciation, Amortization, and FIN47</b>	<b>Interest Expense</b>	<b>Total</b>
Instruction	\$ 1,922,659	\$ 1,870,993	\$ 62,985	\$ 3,856,637
Public Service	134,615	130,454	-	265,069
Academic Support	590,932	600,910	338,460	1,530,302
Student Services	298,649	288,332	53,334	640,315
Institutional Support	443,110	432,869	59,459	935,438
Auxiliary Enterprises	<u>3,333,504</u>	<u>3,302,420</u>	<u>1,304,363</u>	<u>7,940,287</u>
	<u>\$ 6,723,469</u>	<u>\$ 6,625,978</u>	<u>\$ 1,818,601</u>	<u>\$ 15,168,048</u>

The University has a process of allocating other costs through the operation and maintenance process. Included in the operation and maintenance headings above are depreciation, amortization, and FIN 47 expense and interest expense of approximate \$15,000 and \$365,000, respectively, for the year ended May 31, 2007.

\* \* \* \* \*