VILLANOVA UNIVERSITY

and Subsidiaries

FINANCIAL REPORT

May 31, 2006

VILLANOVA UNIVERSITY

FINANCIAL STATEMENTS
May 31, 2006

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PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees
Villanova University

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities, changes in net assets and of cash flows present fairly, in all material respects, the financial position of Villanova University and its subsidiaries (the University") at May 31, 2006 and May 31, 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 15, the University changed its method of accounting for asset retirement obligations in 2006.

PricewaterhouseCoopers LLP

July 28, 2006

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Financial Position at May 31, 2006 and 2005

(in thousands)

	2006	2005
ASSETS		
Cash and cash equivalents	$ 99,097	$ 71,705
Short-term investments	1,385	1,346
Accounts receivable, less allowances of $1,507 in 2006 and $2,136 in 2005	6,391	6,223
Inventories	1,856	1,900
Other assets	10,297	7,216
Assets whose use is limited	51,795	4,980
Pledges receivable, net	35,471	28,681
Student loans receivable, net	9,774	10,285
Investments	281,501	241,165
Land, buildings and equipment, net	235,975	237,509
Total assets	$ 733,542	$ 611,010
LIABILITIES		
Accounts payable	$ 7,165	$ 6,559
Accrued expenses	25,678	22,387
Deposits	3,768	3,467
Deferred revenues	8,149	6,977
Accrued postretirement benefits	8,891	8,784
Refundable government loan funds	6,047	5,981
Long-term debt	238,564	192,385
Accrued pension cost - additional minimum liability	3,226	10,756
Total liabilities	301,488	257,296
NET ASSETS		
Unrestricted	230,418	189,074
Temporarily restricted	90,529	70,149
Permanently restricted	111,107	94,491
Total net assets	432,054	353,714
Total liabilities and net assets	$ 733,542	$ 611,010

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Activities for the Year Ended May 31, 2006

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net of $50,641 in student financial aid	$196,130			$196,130
Sales and services of auxiliary enterprises, net of $1,947 in student financial aid	59,501			59,501
	255,631			255,631
Private gifts and grants	7,128	$ 12,327		19,455
Government grants	8,203			8,203
Endowment resources	5,242	3,977		9,219
Investment income	4,877	197		5,074
Other sources	13,730	44		13,774
Net assets released from restrictions	4,898	(6,922)	$ 2,024	-
Total operating revenues	299,709	9,623	2,024	311,356
OPERATING EXPENSES				
Salaries and fringe benefits	162,006			162,006
Supplies and services	36,709			36,709
Depreciation	12,334			12,334
Cost of goods sold	12,347			12,347
Interest on indebtedness	8,376			8,376
Travel and special events	9,884			9,884
Utilities	8,108			8,108
Other	26,282			26,282
Total operating expenses	276,046	-	-	276,046
Change in net assets from operating activities	23,663	9,623	2,024	35,310
NON-OPERATING				
Investment Income				
Interest and dividends	1,274	1,465	38	2,777
Realized gains	6,639	6,272	1	12,912
Other				
Rental Property Revenue	1,969			1,969
Rental Property Expenses	(1,639)			(1,639)
Change in market value of investments	7,260	6,997	9	14,266
Endowment resources	(5,242)	(3,977)		(9,219)
	10,261	10,757	48	21,066
Endowment and other gifts	346		14,544	14,890
Change in net assets from non-operating activities	10,607	10,757	14,592	35,956
Change in net assets before other adjustments	$ 34,270	$ 20,380	$ 16,616	$ 71,266

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Activities for the Year Ended May 31, 2005

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net of $47,734 in student financial aid	$ 187,674			$ 187,674
Sales and services of auxiliary enterprises, net of $1,953 in student financial aid	55,581			55,581
	243,255			243,255
Private gifts and grants	7,464	$ 11,910		19,374
Government grants	7,355			7,355
Endowment resources	4,859	3,613		8,472
Investment income	2,265	69		2,334
Other sources	13,063	13		13,076
Net assets released from restrictions	5,567	(7,181)	$ 1,614	-
Total operating revenues	283,828	8,424	1,614	293,866
OPERATING EXPENSES				
Salaries and fringe benefits	153,011			153,011
Supplies and services	34,407			34,407
Depreciation	12,590			12,590
Cost of goods sold	11,392			11,392
Interest on indebtedness	8,303			8,303
Travel and special events	7,848			7,848
Utilities	7,235			7,235
Other	24,343			24,343
Total operating expenses	259,129	-	-	259,129
Change in net assets from operating activities	24,699	8,424	1,614	34,737
NON-OPERATING				
Investment Income				
Interest and dividends	1,091	1,280	32	2,403
Realized gains	5,808	5,377	10	11,195
Other				
Rental Property Revenue	1,939			1,939
Rental Property Expenses	(1,700)			(1,700)
Change in market value of investments	4,492	4,704	5	9,201
Endowment resources	(4,859)	(3,613)		(8,472)
	6,771	7,748	47	14,566
Endowment and other gifts	48	9	18,825	18,882
Change in net assets from non-operating activities	6,819	7,757	18,872	33,448
Change in net assets prior to loss on bond refunding	31,518	16,181	20,486	68,185
Loss on bond refunding	(2,004)			(2,004)
Change in net assets before other adjustments	$ 29,514	$ 16,181	$ 20,486	$ 66,181

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
Consolidated Statements of Changes in Net Assets
For the Years Ended May 31, 2006 and 2005
(in thousands)

	2006	2005
Unrestricted Net Assets:		
Change in net assets before other adjustments	$ 34,270	$ 29,514
Cumulative effect of change in accounting principle	(134)	-
Adjustment for additional minimum pension liability	7,208	(5,604)
Increase in unrestricted net assets	41,344	23,910
Temporarily Restricted Net Assets:		
Change in net assets	20,380	16,181
Increase in temporarily restricted net assets	20,380	16,181
Permanently Restricted Net Assets:		
Change in net assets	16,616	20,486
Increase in permanently restricted net assets	16,616	20,486
Increase in net assets	78,340	60,577
Net assets:		
Beginning of Year	353,714	293,137
End of Year	$ 432,054	$ 353,714

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Cash Flows for the years ended May 31, 2006 and 2005 (in thousands)

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 78,340	$ 60,577
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,334	12,590
Cumulative effect of change in accounting principle	134	-
Contributions restricted for long-term investment	(9,634)	(8,938)
Realized gains on sales of investments	(12,912)	(11,195)
Change in market value of investments	(14,266)	(9,201)
Accrued pension cost - additional minimum liability	(7,530)	5,863
Changes in operating assets and liabilities:		
Accounts receivable	460	(1,001)
Pledges receivable	(7,922)	(15,914)
Provision for doubtful accounts	493	119
Accounts payable and accrued expenses	3,763	(1,174)
Accrued postretirement benefits	107	89
Other changes	(2,493)	1,555
Net cash provided by operating activities	40,874	33,370
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	172,382	119,899
Purchases of investments	(185,540)	(131,132)
Student loans receivable	521	(87)
Purchase of land, buildings and equipment	(8,986)	(10,401)
Short-term investments, net	(39)	(36)
Increase in assets whose use is limited	(46,815)	2,217
Net cash used by investing activities	(68,477)	(19,540)
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	9,634	8,938
Repayment of debt	(6,506)	(35,657)
Proceeds from borrowing	52,685	29,694
Increase in deferred financing charges	(884)	(697)
Government loan funds	66	279
Net cash provided by financing activities	54,995	2,557
Net increase in cash and cash equivalents	27,392	16,387
Cash and cash equivalents at beginning of year	71,705	55,318
Cash and cash equivalents at end of year	$ 99,097	$ 71,705
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	$ 1,175	$ 635
Cash paid for interest	9,024	8,963
Tax payments	299	285

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES:

Nature of Operations

Villanova University and Subsidiaries (the "University") is an independent, coeducational institution offering undergraduate and graduate instruction, located in Radnor Township, Delaware County, Pennsylvania. The campus presently covers approximately 255 acres and comprises 65 buildings. The University also has a Conference Center approximately one-half mile from the campus which encompasses 32 acres. The University has approximately 10,300 students, of whom approximately 6,300 are full-time undergraduates. Refer to Note 15 for a description of the University's subsidiaries.

Significant Accounting Policies and Reporting Practices

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories. Change in net assets from operating activities, in the consolidated statement of activities, reflects all transactions increasing or decreasing unrestricted net assets.

- **Unrestricted Net Assets -** Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, receiving dividends and interest from investing in income-producing assets, and unrestricted gains and losses less expenses incurred in providing services, raising contributions, and performing administrative functions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

- **Temporarily Restricted Net Assets –** Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations or by law.

- **Permanently Restricted Net Assets –** Permanently restricted net assets generally represent the corpus of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the University.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an original maturity date not exceeding 90 days, while short-term investments reflect liquid investments with a maturity date in excess of 90 days, but less than one year.

Investments

The University records investments at fair value to more appropriately reflect investment activities. Marketable securities are stated at quoted market prices, and real estate is stated at most recent fair values established by outside parties. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Student Loans Receivable

Student loans receivable are stated net of allowances for doubtful accounts. Student loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions.

Land, Building, and Equipment

Land, buildings and equipment are carried at cost or market value on the date of gift. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (10-25 years), buildings (10-55 years) and equipment (4-10 years). All gifts of land, buildings and equipment are recorded as unrestricted non-operating activity unless explicit donor stipulations specify how the donated assets must be used.

Capitalized Software Costs

Capitalized software costs included in property, plant and equipment relate to purchased software, which is capitalized and depreciated on a straight-line basis over a five-year period.

Early Retirement Benefits

The University has offered early retirement benefits to certain full-time faculty and staff members. The University accrues the present value of all future benefit payments for individuals who have accepted the University's early retirement offer.

Deferred Revenue

All revenues received and expenditures incurred prior to the end of the fiscal year which relate to the following fiscal year are recorded as deferred revenues or other assets, respectively.

Noncash gifts are recorded at market value on the date of donation. Gifts of cash and other non-capital assets are reported as temporarily restricted operating revenue if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Use of Estimates

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

Statement of Activities

Operating revenues reflect all transactions increasing unrestricted and temporarily restricted net assets except those of a capital nature, such as gifts for long-term investment. Operating revenues include realized gains appropriated in accordance with the University's endowment spending policy. Under this policy, the University utilizes endowment and quasi-endowment resources to support operations at a level of 5% of the 12 calendar quarter moving average of the fair value of endowment and quasi-endowment investment assets calculated as of December 31st of the year immediately preceding the beginning of the University's fiscal year. Any difference between actual investment income and the amounts distributed is retained to support operations of future years. These retained balances are used in any year that the actual total investment return is below the spending rate. The remaining realized and unrealized gains/losses are reported as non-operating revenues.

Operation and maintenance of plant, depreciation and interest expenses have been allocated to the other operating expense categories on the consolidated statement of activities. In addition, student tuition and fees as well as sales and services of auxiliary enterprises are shown net of student financial aid.

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2006 and 2005, the fair value of cash and cash equivalents, short-term investments, and deposits with bond trustees approximate their respective carrying amounts. The fair value of short-term investments, investments and deposits with bond trustees are based on the quoted market price of the underlying securities; the fair value of long-term debt is estimated based primarily on quoted market prices of similar bonds and currently offered mortgage interest rates.

The aggregate carrying amount and fair value of the University's outstanding bonds at May 31, 2006 and 2005 are as follows:

2006		2005	
Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
$220,210,000	$225,802,000	$176,060,000	$184,254,000

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

NOTE 3 - NET ASSETS:

	(in thousands) 2006	2005
Temporarily restricted net assets consist of the following:		
Unexpended income for instruction, scholarships and capital expenditures	$34,879	$25,257
Annuity and life income funds	1,038	945
Endowment – accumulated change in market value of investments and realized gains	54,612	43,947
	$90,529	$70,149
Permanently restricted net assets consist of the following:		
Student loans	$1,885	$ 1,856
Endowment principal, primarily for scholarships and instruction	109,222	92,635
	$111,107	$94,491

NOTE 4 - ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited were comprised primarily of unspent proceeds from the issuance of long-term debt related to construction projects, as well as amounts required to be held by bond trustees for debt service payments. The unspent construction funds were primarily invested in a guaranteed investment contract with an interest rate of 5.199%.

NOTE 5 - INVESTMENTS:

Investments are stated at fair value. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national securities exchanges. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The estimated fair value of certain alternative investments such as private equity interests, is based on valuations provided by the external investment managers as of December 31, adjusted for cash receipts and cash disbursements through May 31. The University reviews and evaluates the values provided by the investment managers, and believes that the valuation methods and assumptions used in determining the fair value of the alternative investments are reasonable. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty, and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Investments at May 31, 2006 and 2005 consisted of the following:

	(in thousands)			
	2006		2005	
	FAIR VALUE	COST	FAIR VALUE	COST
Domestic equities	$98,336	$81,856	$116,662	$100,566
Domestic corporate and other bonds	37,181	37,450	35,656	33,960
Foreign equities	67,225	50,405	36,140	31,422
Foreign bonds	33	34	179	171
Hedge funds	47,527	41,602	32,566	28,998
Inflation hedging	14,515	13,371	1,063	1,001
Cash and cash equivalents	4,752	4,752	8,515	8,515
Other	11,932	10,878	10,384	9,643
	$281,501	$240,348	$241,165	$214,276

NOTE 6 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2006 and 2005 consisted of the following:

	(in thousands)	
	2006	2005
Land and improvements	$26,590	$26,481
Buildings and improvements	319,886	315,362
Equipment	41,083	41,115
Construction in progress	4,906	2,229
Unamortized environmental remediation costs	1,813	-
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	412,663	403,572
Less accumulated depreciation	(176,688)	(166,063)
	$235,975	$237,509

NOTE 7 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2006 and 2005 consisted of the following:

	(in thousands)	
	2006	2005
Faculty and Staff Salaries	$10,164	$9,431
Voluntary Severance Plan Payments	1,428	2,266
Interest on Long-Term Debt	3,587	3,167
Vacation Accrual	1,994	1,887
Asset Retirement Obligations	1,946	-
Payroll Tax Witholdings	1,546	1,476
Annuities Payable	1,206	992
Other	3,807	3,168
	$25,678	$22,387

NOTE 8 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2006 and 2005 consisted of the following:

DESCRIPTION	MATURITY DATE	INTEREST RATE	(in thousands) PRINCIPAL BALANCE 2006	2005
Delaware County Authority (a):				
2006 Bonds	08/01/07 to 08/01/24	3.50% to 5.00%	$ 52,654*	$ -
2005 Bonds	08/01/06 to 08/01/24	3.00% to 5.00%	28,435*	29,680*
2003 Bonds	08/01/06 to 08/01/22	1.60% to 5.25%	38,552*	40,187*
2002 Bonds	08/01/17	variable	11,750	12,425
2001 Bonds	08/01/30 to 08/01/32	variable	12,525	12,525
1998 B Bonds	12/01/06 to 12/01/15	4.00% to 4.75%	11,082*	11,963*
1998 A Bonds	12/01/06 to 12/01/28	4.50% to 5.50%	70,301*	71,883*
U.S. Dept. of HUD (b):				
1969 Dormitory Bonds	04/01/19	3.00%	835	885
Mortgage Note – Aldwyn Lane Rental Properties (c)	01/10/22	7.35%	12,430	12,837
			$238,564	$192,385

*Net of original issue discount/(premium) as follows:

	(in thousands) 2006	2005
2006 Bonds	$(2,654)	$ -
2005 Bonds	(1,000)	(1,055)
2003 Bonds	(2,967)	(3,151)
1998B Bonds	38	42
1998A Bonds	1,494	1,562
	$(5,089)	$(2,602)

(a) The University has pledged and granted to the Delaware County Authority a lien on and security interest in the University's unrestricted revenues and certain property and equipment to collateralize the annual principal maturities and interest payments which average approximately $16,569,000 through 2011, and $12,917,000 from 2012 to 2032. The University is required to maintain unrestricted net revenues equal to 100% of the annual debt service requirement.

(b) To collateralize the annual principal and interest payments, the University has granted a mortgage lien on the Stanford dormitory and related parcels of land. Annual principal and interest payments are approximately $85,000.

NOTE 8 – LONG-TERM DEBT: (Continued)

(c) The mortgage note on the Aldwyn Lane rental properties is collateralized by the related buildings and parcels of land. The mortgage note is non-recourse to the University. Equal monthly payments are to be made over the twenty-year term of the loan.

Aggregate maturities of long-term debt including call provisions at 100% for each of the next five fiscal years are as follows:

2007	$6,274,000
2008	7,228,000
2009	7,513,000
2010	7,842,000
2011	8,199,000
Thereafter	196,418,000

Interest paid on long-term debt amounted to $9,024,000 and $8,963,000 for the years ended May 31, 2006 and 2005, respectively. Interest expense allocated to the operating expense categories in the consolidated statement of activities amounted to $8,376,000 and $8,303,000 for the years ended May 31, 2006 and 2005, respectively.

The University is required, among other things, to generate net revenue at least equal to 100% of annual debt service requirements. The University was in compliance with such requirements at May 31, 2006 and 2005.

NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS:

For full-time faculty members and for certain full-time non-academic employees not covered by the defined benefit plan, the University sponsors a defined contribution retirement plan under which the University makes annual contributions for the benefit of the participants to either the Teachers Insurance Annuity Association of America--College Retirement Equities Fund (TIAA-CREF) or The Vanguard Group, at the option of the participants, and the University has no further liability. The University's contributions to the defined contribution plan amounted to $7,649,000 and $7,458,000 for the years ended May 31, 2006 and 2005, respectively.

The University has a non-contributory defined benefit pension plan for certain full-time non-academic employees employed prior to May 31, 1996. Benefits under the plan are based on years of service and the highest average level of earnings for any three consecutive years during the last ten years of service. In October 1999, the University offered participants in the plan the opportunity to transfer to the defined contribution plan effective January 1, 2000. Effective January 1, 2000, the benefits for new retirees, those employees that did not transfer to the defined contribution plan in October 1999 and those employees retiring between June 1, 1998 and December 31, 1999 are based on the highest average level of earnings for any three consecutive years during the last ten years of service.

The University provides postretirement medical benefits to all employees who meet certain eligibility requirements. The University accrues for expected medical postretirement benefits over the years that the employees render the necessary service.

The following is a reconciliation of the beginning and ending balances of the pension benefits projected benefit obligation of the University (in thousands):

Change in Benefit Obligation	**2006**	**2005**
Benefit obligation at the beginning of the year	$49,769	$41,623
Interest cost on projected benefit obligations	2,426	2,648
Service costs – during the year	501	555
Actuarial (gain)/loss	(8,103)	6,997
Benefits and administrative expenses paid	(2,001)	(2,054)
Benefit obligation at the end of the year	$42,592	$49,769

The following table sets forth the funded status and amount recognized in the University's balance sheets for its defined benefit plan:

NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

Change in Plan Assets	**2006**	**2005**
Fair value of plan assets at beginning of year	$36,540	34,826
Actual return on plan assets	1,633	2,894
Employer contributions	1,564	874
Benefits and administrative expenses paid	(2,001)	(2,054)
Fair value of plan assets at end of year	$37,736	$36,540
Funded Status		
Actuarial present value of benefit obligations:		
Projected benefit obligation	$(42,592)	$(49,769)
Plan assets at fair value*	37,736	36,540
Plan assets less than projected benefit obligation:		
Funded Status	(4,856)	(13,229)
Items not yet recognized:		
Prior service cost	187	277
Net actuarial loss	8,359	16,320
Net amount recognized	$3,690	$3,368
Amounts recognized in the Consolidated Statements of Financial Position consists of:		
Prepaid pension asset	$3,690	$3,368
Additional minimum pension liability	(6,916)	(14,124)
Net amount recognized	$(3,226)	$(10,756)

*Consists principally of investments in debt and equity funds.

The principal assumptions used in determining the actuarial present value of projected benefit obligations were as follows:

	2006	**2005**
Weighted average discount rate	6.25%	5.25%
Rate of increase in compensation levels	4.00%	4.00%
Expected long-term rate of return on assets	8.50%	8.50%

	(in thousands)	
Components of Net Periodic Benefit Cost	**2006**	**2005**
Service cost – benefits earned during the period	$501	$555
Interest cost on projected benefit obligation	2,426	2,648
Expected return on plan assets	(3,019)	(2,892)
Amortization of unrecognized net loss	1,245	734
Amortization of prior service cost	89	89
Total net periodic benefit cost	$1,242	$1,134

The provisions of Financial Accounting Standards Board Statement No. 87 ("SFAS 87"), "Employers Accounting for Pensions", require recognition in the Consolidated Statement of Financial Position of an additional minimum liability for pension plans with accumulated benefits in excess of plan assets. At May 31, 2006, and May 31, 2005, the unfunded accumulated benefit obligation exceeded the prepaid pension cost, resulting in additional minimum pension liabilities of $6,916,000 and $14,124,000, respectively. The minimum pension liabilities were recorded as a reduction in net assets as shown on the Consolidated Statement of Changes in Net Assets.

Plan assets are allocated at May 31, 2006 and May 31, 2005 as follows:

	2006	**2005**
Plan Assets		
Equity Securities	62%	53%
Debt Securities	38%	28%
Other	-	19%
Total	100%	100%

NOTE 9 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The expected benefit payments from the Plan in subsequent years are as follows:

Year ending	**(in thousands)**
May 31, 2007	$2,574
May 31, 2008	2,642
May 31, 2009	2,734
May 31, 2010	2,726
May 31, 2011	2,714
May 31, 2012 through May 31, 2016	13,886

The components of medical postretirement benefits as of May 31, 2006 and 2005 are as follows:

	(in thousands)	
	2006	**2005**
Projected benefit obligation	$7,971	$8,711
Fair value of plan assets	-	-
Unfunded status	$(7,971)	$(8,711)
Accrued post-retirement benefits	$(8,891)	$(8,784)
Weighted-average assumptions:		
Discount rate	6.25%	5.25%

There is no healthcare cost trend rate associated with the liabilities, because the University provides a fixed subsidy for postretirement medical benefits. Benefit expense totaled $634,000 and $604,000 for the years ended May 31, 2006 and 2005, respectively. Benefits paid totaled $527,000 and $515,000 for the years ended May 31, 2006 and 2005, respectively.

In December 2001, the University offered a one-time voluntary severance program to certain faculty members. The University accrued the present value of all future payments to the participants under this program in the year in which it was offered. The University also allows faculty members that meet specific criteria for eligibility to elect to participate in an ongoing voluntary severance program. The accrued liability for future payments under these programs amounted to $1,428,000 and $2,266,000 as of May 31, 2006 and 2005, respectively.

NOTE 10 - OPERATING EXPENSE:

Expenses were incurred for the following functions for the years ended May 31:

	(in thousands)	
	2006	**2005**
Instruction	$113,094	$107,671
Research	5,667	4,697
Academic support	34,886	31,460
Student services	34,142	31,374
Institutional support	30,599	29,396
Auxiliary enterprises	57,658	54,531
Total operating expense	$276,046	$259,129

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2006 and 2005 of approximately $7,652,000 and $6,807,000, respectively.

NOTE 11 - ALLOCATION OF EXPENSES:

The University allocated operation and maintenance of plant, interest on indebtedness and depreciation expenses to functional expense categories in the consolidated statement of activities for the fiscal years ended May 31, 2006 and 2005. Those expenses were allocated to the individual functional categories as follows:

	(in thousands) 2006		
	Operation and Maintenance	**Interest on Indebtedness**	**Depreciation**
Instruction	$7,106	$3,991	$4,514
Research	-	149	92
Academic support	1,280	234	834
Student services	3,343	126	1,125
Institutional support	1,395	107	626
Auxiliary enterprises	11,581	3,502	4,181
Operation and maintenance of plant	-	267	962
	$24,705	$8,376	$12,334

	(in thousands) 2005		
	Operation and Maintenance	**Interest on Indebtedness**	**Depreciation**
Instruction	$6,760	$3,808	$4,302
Research	-	159	88
Academic support	1,110	242	833
Student services	3,180	138	1,380
Institutional support	1,231	133	608
Auxiliary enterprises	11,015	3,549	4,361
Operation and maintenance of plant	-	274	1,018
	$23,296	$8,303	$12,590

NOTE 12 - INCOME TAX:

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the consolidated financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

During the 2006 fiscal year, the University invested $2,000,000 in seven long-term partnerships which were formed prior to the 2006 fiscal year, bringing its cumulative contributions to the partnerships to $13,300,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of May 31, 2006, the University's remaining commitments to these seven partnerships total approximately $9,200,000.

The University also committed a total of $9,000,000 to three additional long-term partnerships which were formed during the 2006 fiscal year. As of May 31, 2006, the University had invested $400,000 in these partnerships; as a result, the University's remaining commitments to the three partnerships total $8,600,000.

As of May 31, 2006, the University's remaining commitments to all ten partnerships total $17,800,000.

Outstanding commitments for construction contracts amounted to approximately $7,300,000 as of May 31, 2006.

The University has a $5,000,000 unsecured line of credit. No portion of the line was utilized during the fiscal year.

NOTE 14 - UNCONDITIONAL PROMISES AND PLEDGES:

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the University reports the support as unrestricted. Conditional promises are recorded when donor stipulations are substantially met.

Unconditional promises at May 31, 2006 are expected to be realized in the following periods:

	(in thousands)
In one year or less	$15,393
Between one year and five years	27,355
In more than five years	1,079
Less: discount of $4,408 and allowance for doubtful accounts of $3,948	(8,356)
	$35,471

NOTE 15 - SUBSIDIARIES:

The Aldwyn Lane LLC (LLC) and the Aldwyn Lane Limited Partnership (Partnership) were formed by the University for the purpose of acquiring property and office space adjacent to the campus. The LLC is 100% owned by the University, and it is the general partner in the Partnership, in which the University is the limited partner. The Partnership purchased property and office space adjacent to the campus in December 2001, and entered into an agreement to lease back the property to the previous owner for a period of twenty years. The Partnership also obtained a mortgage on the property at the time of purchase.

Rental income related to the property is collected by the Partnership, and the mortgage payments are made by the Partnership. The title to the property and the related mortgage are both held by the Partnership. The assets and liabilities of both the Partnership and the LLC are consolidated into the preceding financial statements, and the net income from the rental of the property is shown as non-operating income on the consolidated statement of activities.

NOTE 16 – ASSET RETIREMENT OBLIGATIONS:

Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143) was issued in March 2005. This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Upon adoption of FIN 47 on May 31, 2006, the University recognized asset retirement obligations related to asbestos contamination in buildings and recorded a non-cash transition impact of $134,000, which is reported as a cumulative effect of a change in accounting principle in the statement of changes in net assets, and a liability for conditional asset retirement obligations of $1,946,000.

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