Photo: B. Dierkes, Villanova University

VILLANOVA
UNIVERSITY
and Subsidiaries

FINANCIAL STATEMENTS
May 31, 2007

VILLANOVA UNIVERSITY

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May 31, 2007

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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 balance sheets and the related consolidated statements of activities, changes in net assets and cash flows present fairly, in all material respects, the financial position of Villanova University and its subsidiaries (the "University") at May 31, 2007 and May 31, 2006, 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 9, the University changed its method of accounting for pension obligations in 2007.

PricewaterhouseCoopers LLP

August 31, 2007

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Financial Position at May 31, 2007 and 2006

(in thousands)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 123,141	$ 99,097
Short-term investments	957	1,385
Accounts receivable, less allowances of $1,420 in 2007 and $1,507 in 2006	7,844	6,391
Inventories	1,780	1,856
Other assets	10,125	10,297
Assets whose use is limited	38,277	51,795
Pledges receivable, net	35,458	35,471
Student loans receivable, net	10,055	9,774
Investments	339,397	281,501
Land, buildings and equipment, net	261,152	235,975
Total assets	$ 828,186	$ 733,542
LIABILITIES		
Accounts payable	$ 16,220	$ 7,165
Accrued expenses	28,530	25,678
Deposits	4,431	3,768
Deferred revenues	8,858	8,149
Accrued postretirement benefits	8,992	8,891
Refundable government loan funds	6,040	6,047
Long-term debt	231,977	238,564
Accrued pension cost	2,587	3,226
Total liabilities	307,635	301,488
NET ASSETS		
Unrestricted	281,418	230,418
Temporarily restricted	119,474	90,529
Permanently restricted	119,659	111,107
Total net assets	520,551	432,054
Total liabilities and net assets	$ 828,186	$ 733,542

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, 2007

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net of $56,594 in student financial aid	$209,997			$209,997
Sales and services of auxiliary enterprises, net of $2,010 in student financial aid	61,568			61,568
	271,565			271,565
Private gifts and grants	9,969	$ 11,096		21,065
Government grants	12,666			12,666
Endowment resources	5,757	4,889		10,646
Investment income	9,235	343		9,578
Other sources	13,391	68		13,459
Net assets released from restrictions	5,987	(8,586)	$ 2,599	-
Total operating revenues	328,570	7,810	2,599	338,979
OPERATING EXPENSES				
Salaries and fringe benefits	172,099			172,099
Supplies and services	41,349			41,349
Depreciation	12,516			12,516
Cost of goods sold	12,884			12,884
Interest on indebtedness	9,481			9,481
Travel and special events	9,886			9,886
Utilities	8,220			8,220
Other	31,969			31,969
Total operating expenses	298,404	-	-	298,404
Change in net assets from operating activities	30,166	7,810	2,599	40,575
NON-OPERATING				
Investment Income				
Interest and dividends	1,372	1,965	67	3,404
Realized gains	4,908	4,820	40	9,768
Other				
Rental property revenue	2,017			2,017
Rental property expenses	(1,615)			(1,615)
Change in market value of investments	19,819	19,204	81	39,104
Endowment resources	(5,757)	(4,889)		(10,646)
	20,744	21,100	188	42,032
Endowment and other gifts	35	35	5,765	5,835
Change in net assets from non-operating activities	20,779	21,135	5,953	47,867
Change in net assets before other adjustments	$ 50,945	$ 28,945	$ 8,552	$ 88,442

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 Statements of Changes in Net Assets
For the Years Ended May 31, 2007 and 2006
(in thousands)

	2007	2006
Unrestricted Net Assets:		
Change in net assets before other adjustments	$ 50,945	$ 34,270
Adjustment for additional minimum pension liability	1,917	7,208
Increase in unrestricted net assets before cumulative effect of change in accounting principle	52,862	41,478
Cumulative effect of change in accounting principle		
FIN 47 adjutment	-	(134)
SFAS 158 adjustment	(1,862)	-
Increase in unrestricted net assets	51,000	41,344
Temporarily Restricted Net Assets:		
Change in net assets	28,945	20,380
Increase in temporarily restricted net assets	28,945	20,380
Permanently Restricted Net Assets:		
Change in net assets	8,552	16,616
Increase in permanently restricted net assets	8,552	16,616
Increase in net assets	88,497	78,340
Net assets:		
Beginning of Year	432,054	353,714
End of Year	$ 520,551	$ 432,054

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, 2007 and 2006 (in thousands)

	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 88,497	$ 78,340
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,516	12,334
Cumulative effect of change in accounting principle	-	134
Contributions restricted for long-term investment	(7,542)	(9,634)
Realized gains on sales of investments	(9,768)	(12,912)
Change in market value of investments	(39,104)	(14,266)
Accrued pension cost - additional minimum liability	(639)	(7,530)
Changes in operating assets and liabilities:		
Accounts receivable	(1,366)	460
Pledges receivable	(1,284)	(7,922)
Provision for doubtful accounts	1,228	493
Accounts payable and accrued expenses	11,907	3,763
Accrued postretirement benefits	101	107
Other changes	1,620	(2,493)
Net cash provided by operating activities	56,166	40,874
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	114,154	172,382
Purchases of investments	(123,179)	(185,540)
Student loans receivable	(299)	521
Purchase of land, buildings and equipment	(37,693)	(8,986)
Short-term investments, net	428	(39)
(Increase)/decrease in assets whose use is limited	13,518	(46,815)
Net cash used by investing activities	(33,071)	(68,477)
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	7,542	9,634
Repayment of debt	(6,586)	(6,506)
Proceeds from borrowing	-	52,685
Increase in deferred financing charges	-	(884)
Government loan funds	(7)	66
Net cash provided by financing activities	949	54,995
Net increase in cash and cash equivalents	24,044	27,392
Cash and cash equivalents at beginning of year	99,097	71,705
Cash and cash equivalents at end of year	$ 123,141	$ 99,097
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	$ 10,427	$ 1,175
Cash paid for interest	11,023	9,024
Tax payments	309	299

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 6,400 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. For non-marketable investments, estimates of fair value are provided by external investment managers, and are reviewed by management. 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)

Investment Income

Investment income related to long-term investments is recorded as non-operating income, and the portion of investment income that is utilized under the University's endowment spending formula (see description below) is shown as a reduction in non-operating income ("Endowment resources"). Investment income related to the endowment is classified as unrestricted or temporarily restricted, depending on whether it is related to the quasi-endowment or endowment, respectively.

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 offers an early retirement program to full-time faculty members who meet certain eligibility criteria. The University accrues the present value of all future benefit payments for individuals who accept the University's early retirement offer at the time of acceptance.

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.

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

Operation and maintenance of plant, depreciation and interest expenses have been allocated to the other operating expense categories in Note 10. 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, 2007 and 2006, 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, 2007 and 2006 are as follows:

2007		2006	
Carrying Amount	Fair Value	Carrying Amount	Fair Value
$214,430,000	$220,778,000	$220,210,000	$225,802,000

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) 2007	2006
Temporarily restricted net assets consist of the following:		
Unexpended income for instruction and scholarships	$12,314	$10,172
Unexpended income for capital expenditures	19,271	22,946
Property, plant, and equipment acquired through donations	11,138	1,761
Annuity and life income funds	1,342	1,038
Endowment – accumulated change in market value of investments and realized gains	75,409	54,612
	$119,474	$90,529
Permanently restricted net assets consist of the following:		
Student loans	$1,937	$1,885
Endowment principal, primarily for scholarships and instruction	117,722	109,222
	$119,659	$111,107

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, 2007 and 2006 consisted of the following:

	(in thousands)			
	2007		2006	
	FAIR VALUE	COST	FAIR VALUE	COST
Domestic equities	$103,212	$81,033	$87,232	$76,983
Domestic corporate and other bonds	37,455	37,087	37,181	37,450
Foreign equities	84,400	51,495	67,225	50,405
Foreign bonds	355	352	33	34
Hedge funds	56,250	46,602	47,527	41,602
Inflation hedging	31,073	18,283	25,619	18,244
Cash and cash equivalents	11,579	11,579	4,752	4,752
Other	15,073	12,710	11,932	10,878
	$339,397	$259,141	$281,501	$240,348

NOTE 6 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2007 and 2006 consisted of the following:

	(in thousands)	
	2007	2006
Land and improvements	$26,830	$26,590
Buildings and improvements	324,614	319,886
Equipment	43,970	41,083
Construction in progress	32,776	4,906
Capitalized interest	613	-
Unamortized environmental remediation costs	1,728	1,813
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	448,916	412,663
Less accumulated depreciation	(187,764)	(176,688)
	$261,152	$235,975

Depreciation expense totaled $12,516,000 and $12,334,000 for the years ended May 31, 2007 and 2006, respectively.

NOTE 7 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2007 and 2006 consisted of the following:

	(in thousands) 2007	2006
Faculty and Staff Salaries	$11,194	$10,164
Voluntary Severance Plan Payments	1,173	1,428
Interest on Long-Term Debt	1,886	3,587
Vacation Accrual	1,919	1,994
Asset Retirement Obligations	2,013	1,946
Payroll Tax Witholdings	1,574	1,546
Annuities Payable	1,123	1,206
Other	7,648	3,807
	$28,530	$25,678

NOTE 8 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2007 and 2006 consisted of the following:

DESCRIPTION	MATURITY DATE	INTEREST RATE	(in thousands) PRINCIPAL BALANCE 2007	2006
Delaware County Authority (a):				
2006 Bonds	08/01/07 to 08/01/24	3.50% to 5.00%	$ 52,508*	$ 52,654*
2005 Bonds	08/01/07 to 08/01/24	3.00% to 5.00%	27,435*	28,435*
2003 Bonds	08/01/07 to 08/01/22	2.25% to 5.25%	37,494*	38,552*
2002 Bonds	08/01/17	variable	10,435	11,750
2001 Bonds	08/01/30 to 08/01/32	variable	12,525	12,525
1998 B Bonds	12/01/07 to 12/01/15	4.00% to 4.75%	10,171*	11,082*
1998 A Bonds	12/01/07 to 12/01/28	4.625% to 5.50%	68,639*	70,301*
U.S. Dept. of HUD (b):				
1969 Dormitory Bonds	04/01/19	3.00%	780	835
Mortgage Note – Aldwyn Lane Rental Properties (c)	01/10/22	7.35%	11,990	12,430
			$231,977	$238,564

NOTE 8 - LONG-TERM DEBT: (Continued)

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

	(in thousands) 2007	2006
2006 Bonds	$(2,508)	$(2,654)
2005 Bonds	(945)	(1,000)
2003 Bonds	(2,784)	(2,967)
1998B Bonds	34	38
1998A Bonds	1,426	1,494
	$(4,777)	$(5,089)

(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 $16,761,000 through 2012, and $12,725,000 from 2013 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.

(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:

2008	$7,228,000
2009	7,513,000
2010	7,842,000
2011	8,199,000
2012	8,588,000
Thereafter	187,829,000

Interest paid on long-term debt amounted to $11,023,000 and $9,024,000 for the years ended May 31, 2007 and 2006, respectively. Interest expense allocated to the operating expense categories in the consolidated statement of activities amounted to $9,481,000 and $8,376,000 for the years ended May 31, 2007 and 2006, 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, 2007 and 2006.

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 $8,080,000 and $7,649,000 for the years ended May 31, 2007 and 2006, 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.

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

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.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 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 158"), which requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS 158 were adopted at the end of the University's fiscal year ended May 31, 2007. The adoption of SFAS 158 reduced unrestricted net assets by approximately $1.9 million.

Prior to the adoption of the provisions of SFAS No. 158, the provisions of Financial Accounting Standards Board Statement No. 87 ("SFAS 87"), "Employers Accounting for Pensions", required 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, the unfunded accumulated benefit obligation exceeded the prepaid pension cost, resulting in an additional minimum pension liability of $6,916,000. The minimum pension liability was recorded as a reduction in net assets as shown on the Consolidated Statement of Changes in Net Assets.

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	**2007**	**2006**
Benefit obligation at the beginning of the year	$42,592	$49,769
Interest cost on projected benefit obligations	2,596	2,426
Service costs – during the year	411	501
Actuarial (gain)/loss	988	(8,103)
Benefits and administrative expenses paid	(2,147)	(2,001)
Benefit obligation at the end of the year	$44,440	$42,592

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

Change in Plan Assets	**2007**	**2006**
Fair value of plan assets at beginning of year	$37,736	$36,540
Actual return on plan assets	5,164	1,633
Employer contributions	1,100	1,564
Benefits and administrative expenses paid	(2,147)	(2,001)
Fair value of plan assets at end of year	$41,853	$37,736
Funded Status		
Actuarial present value of benefit obligations:		
Projected benefit obligation	$(44,440)	$(42,592)
Plan assets at fair value*	41,853	37,736
Plan assets less than projected benefit obligation:		
Funded Status	(2,587)	(4,856)
Items not yet recognized:		
Prior service cost**	-	187
Net actuarial loss**	-	8,359
Net amount recognized	$(2,587)	$3,690
Amounts recognized in the Consolidated Statements of Financial Position consists of:		
Prepaid pension asset**	$ -	$3,690
Additional minimum pension liability**	-	(6,916)
Net amount recognized	$(2,587)	$(3,226)

*Consists principally of investments in debt and equity funds.
** Not applicable subsequent to the adoption of the provisions of SFAS No. 158.

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

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

	2007	2006
Weighted average discount rate	6.00%	6.25%
Rate of increase in compensation levels	4.00%	4.00%
Expected long-term rate of return on assets	8.50%	8.50%

Components of Net Periodic Benefit Cost	(in thousands) 2007	2006
Service cost – benefits earned during the period	$411	$501
Interest cost on projected benefit obligation	2,595	2,426
Expected return on plan assets	(3,160)	(3,019)
Amortization of unrecognized net loss	581	1,245
Amortization of prior service cost	89	89
Total net periodic benefit cost	$516	$1,242

Plan assets are allocated at May 31, 2007 and May 31, 2006 as follows:

Plan Assets	2007	2006
Equity Securities	61%	62%
Debt Securities	38%	38%
Other	1%	-
Total	100%	100%

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

Year ending	(in thousands)
May 31, 2008	$2,574
May 31, 2009	2,642
May 31, 2010	2,734
May 31, 2011	2,726
May 31, 2012	2,714
May 31, 2013 through May 31, 2017	13,886

The components of medical postretirement benefits as of May 31, 2007 and 2006 are as follows:

	(in thousands) 2007	2006
Projected benefit obligation	$8,711	$7,971
Fair value of plan assets	-	-
Unfunded status	$(8,711)	$(7,971)
Accrued post-retirement benefits	$(8,992)	$(8,891)
Weighted-average assumptions:		
Discount rate	6.00%	6.25%

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 $643,000 and $634,000 for the years ended May 31, 2007 and 2006, respectively. Benefits paid totaled $542,000 and $527,000 for the years ended May 31, 2007 and 2006, 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 $1,173,000 and $1,428,000 as of May 31, 2007 and 2006, respectively.

NOTE 10 - OPERATING EXPENSE:

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

	(in thousands) 2007	2006
Instruction	$120,121	$113,094
Research	9,770	5,667
Academic support	36,860	34,886
Student services	35,621	34,142
Institutional support	33,569	30,599
Auxiliary enterprises	62,463	57,658
Total operating expense	$298,404	$276,046

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2007 and 2006 of approximately $7,177,000 and $7,652,000, 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, 2007 and 2006. Those expenses were allocated to the individual functional categories as follows:

	(in thousands) 2007		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	$7,305	$4,758	$4,444
Research	-	181	91
Academic support	1,315	231	715
Student services	3,436	124	1,147
Institutional support	1,434	105	669
Auxiliary enterprises	11,904	3,823	4,507
Operation and maintenance of plant	-	259	943
	$25,394	$9,481	$12,516

	(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

NOTE 12 - INCOME TAX:

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University files IRS Form 990-T (Exempt Organization Business Income Tax Return) annually, but has not had an income tax liability. Accordingly, no provision for income taxes is made in the consolidated financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

During the 2007 fiscal year, the University invested $3,400,000 in ten long-term partnerships which were formed prior to the 2007 fiscal year, bringing its cumulative contributions to the partnerships to approximately $17,100,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of May 31, 2007, the University's remaining commitments to these ten partnerships total approximately $14,400,000.

The University also committed a total of $17,000,000 to five additional long-term partnerships which were formed during the 2007 fiscal year. As of May 31, 2007, the University had invested approximately $200,000 in these partnerships; as a result, the University's remaining commitments to the five partnerships total $16,800,000.

As of May 31, 2007, the University's remaining commitments to all fifteen partnerships total $31,200,000.

Outstanding commitments for construction contracts amounted to approximately $34,100,000 as of May 31, 2007.

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, 2007 are expected to be realized in the following periods:

	(in thousands)
In one year or less	$16,940
Between one year and five years	27,135
In more than five years	683
Less: discount of $4,055 and allowance for doubtful accounts of $5,245	(9,300)
	$35,458

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.