Baylor University

Financial Statements
Years Ended May 31, 2009 and 2008, and
Independent Auditors' Report
**BAYLOR UNIVERSITY**

**FINANCIAL STATEMENTS**

Years Ended May 31, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

Board of Regents
Baylor University

We have audited the accompanying balance sheets of Baylor University (the “University”) as of May 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2009 and 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the University adopted the provisions of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements. As discussed in Note 3 to the financial statements, the University retroactively adopted the provisions of FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.

Deloitte & Touche LLP

September 23, 2009
BAYLOR UNIVERSITY
Balance Sheets
May 31, 2009 and 2008
(in thousands of dollars)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
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<tbody>
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<td>Cash &amp; cash equivalents</td>
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<td>$ 421</td>
<td>$ 69,415</td>
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<td>2,008</td>
<td>25,114</td>
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<tr>
<td>Bond proceeds held by trustees</td>
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<td>--</td>
<td>--</td>
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<tr>
<td>Student accounts receivable, net</td>
<td>14,397</td>
<td>--</td>
<td>--</td>
<td>14,397</td>
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<tr>
<td>Contributions, grants &amp; other receivables</td>
<td>8,133</td>
<td>9,042</td>
<td>6,899</td>
<td>24,074</td>
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<td>Prepaid expenses &amp; other</td>
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<td>69</td>
<td>--</td>
<td>5,738</td>
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<td>Student loans receivable, net</td>
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<td>--</td>
<td>5,129</td>
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<td>Long-term investments, at fair value</td>
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<td>935,981</td>
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<td>Property, plant &amp; equipment, net</td>
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<td>--</td>
<td>--</td>
<td>627,235</td>
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<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 905,669</strong></td>
<td><strong>$ 253,869</strong></td>
<td><strong>$ 556,211</strong></td>
<td><strong>$ 1,715,749</strong></td>
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<table>
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<tr>
<th>LIABILITIES &amp; NET ASSETS</th>
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<th></th>
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<td>$ 230</td>
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<td>Personnel related liabilities</td>
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<td>Deposits &amp; deferred income</td>
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<td>Notes &amp; bonds payable</td>
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<tr>
<td>Interest rate swap liability</td>
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<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Accrued postretirement benefits</td>
<td>33,093</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>11,138</td>
<td>946</td>
<td>4,633</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>467,569</strong></td>
<td><strong>1,488</strong></td>
<td><strong>4,997</strong></td>
</tr>
</tbody>
</table>

| Net Assets | Unrestricted - designated for operations | 31,172 | -- | -- | 31,172 |
| Net Assets | Unrestricted - designated for plant | 35,225 | -- | -- | 35,225 |
| Restricted | -- | 10,753 | 6,544 | 17,297 |
| Endowment | (9,472) | 212,943 | 529,534 | 733,005 |
| Endowment - Board designated | 136,111 | 11,140 | -- | 147,251 |
| Annuity & living trusts | -- | 10,650 | 15,136 | 25,786 |
| Net invested in plant | 245,064 | 6,895 | -- | 251,959 |
| **Total net assets** | **438,100** | **252,381** | **551,214** | **1,241,695** |
| **Total liabilities & net assets** | **$ 905,669** | **$ 253,869** | **$ 556,211** | **$ 1,715,749** |

See accompanying notes to financial statements.
<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
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<td></td>
<td></td>
<td>$</td>
<td>$</td>
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<tr>
<td>$</td>
<td>4,958</td>
<td>9,672</td>
<td>264</td>
<td>14,894</td>
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<td>2,838</td>
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<td>2,838</td>
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<td>5,495</td>
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<td>8,589</td>
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<td>5,447</td>
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<td>547,872</td>
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<td>599,993</td>
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<td>$</td>
<td>886,000</td>
<td>417,180</td>
<td>560,507</td>
<td>1,863,687</td>
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<td>--</td>
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<td>277,454</td>
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<td>22,852</td>
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<td>33,754</td>
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<td>11,382</td>
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<td>248,072</td>
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<td>417,180</td>
<td>560,507</td>
<td>1,863,687</td>
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- 3 -
# Baylor University

## Statements of Activities

For the Years Ended May 31, 2009 and 2008  
*(in thousands of dollars)*

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>Year Ended May 31, 2009</th>
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<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
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<td>$--</td>
<td>$373,028</td>
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<td>Less scholarships</td>
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<td>$(132,229)</td>
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<td>Net tuition &amp; fees</td>
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<td>$--</td>
<td>240,799</td>
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<td></td>
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<tr>
<td>Gifts, private grants &amp; Baptist General Convention of Texas appropriation</td>
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<td>16,509</td>
<td>15,784</td>
<td>46,415</td>
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<td>Investment income</td>
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<td>22</td>
<td>825</td>
<td>4,273</td>
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<td>Endowment earnings distributed</td>
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<td>2,513</td>
<td>50,709</td>
<td></td>
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<tr>
<td>Other sources - educational &amp; general</td>
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<td>--</td>
<td>--</td>
<td>19,015</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Sales &amp; services of auxiliary enterprises</td>
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<td>--</td>
<td>--</td>
<td>39,335</td>
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<td></td>
<td></td>
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<tr>
<td><strong>Total revenues</strong></td>
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<td>19,122</td>
<td>444,924</td>
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<tr>
<td>Program expenses</td>
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<td></td>
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<td></td>
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<td>Instruction</td>
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<td>187,877</td>
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<td>Academic support, research &amp; public service</td>
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<td></td>
<td></td>
<td>57,076</td>
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<td>Student services &amp; activities</td>
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<td>74,667</td>
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<td>Auxiliary enterprises</td>
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<td>37,324</td>
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<td></td>
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<td>Support expenses</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>Institutional support</td>
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<td></td>
<td></td>
<td>53,726</td>
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<tr>
<td><strong>Total expenses</strong></td>
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<td></td>
<td></td>
<td>410,670</td>
<td></td>
<td></td>
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</table>

| Increase (decrease) in net assets before other changes | 20,535 | (5,428) | 19,147 | 34,254 |

<table>
<thead>
<tr>
<th>Other Changes</th>
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<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Gains (losses) on investments, net of distributions</td>
<td>(49,102)</td>
<td>(153,830)</td>
<td>(20,116)</td>
<td>(20,116)</td>
<td>(231,894)</td>
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<tr>
<td>Unrealized loss on interest rate swap</td>
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<td></td>
<td></td>
<td>(4,709)</td>
<td></td>
<td></td>
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<td>Losses on disposal of property &amp; equipment</td>
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<td></td>
<td>(910)</td>
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<td>Change in postretirement benefits obligation other than net periodic benefit cost</td>
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<td>3,719</td>
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<tr>
<td>Effect of debt refunding - Realized loss on interest rate swaps</td>
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<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Write off of debt issuance costs</td>
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<td>--</td>
<td>--</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in value of split interest agreements - Present value adjustments</td>
<td>--</td>
<td>(2,716)</td>
<td>(4,230)</td>
<td>(6,946)</td>
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<td>Terminated annuities</td>
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<td>(791)</td>
<td>771</td>
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<tr>
<td><strong>Total other changes</strong></td>
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<td>(157,337)</td>
<td>(23,575)</td>
<td>(231,894)</td>
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</table>

| Increase (decrease) in net assets before cumulative effect of change in accounting principles | (30,447) | (162,765) | (4,428) | (197,640) |

<table>
<thead>
<tr>
<th>Cumulative effect of change in accounting principles</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued postretirement benefits</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassification of endowment net assets</td>
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<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Increase (decrease) in net assets | (30,447) | (162,765) | (4,428) | (197,640) |

| Net assets at beginning of year | 468,547 | 415,146 | 555,642 | 1,439,335 |

| Net assets at end of year | $438,100 | $252,381 | $551,214 | $1,241,695 |

See accompanying notes to financial statements.
<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
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<td>$ --</td>
<td>$ --</td>
<td>$342,098</td>
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<td>(119,362)</td>
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<td>222,736</td>
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<td>222,736</td>
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<td>15,244</td>
<td>6,759</td>
<td>21,581</td>
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<td>43,584</td>
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<td>5,618</td>
<td>410</td>
<td>859</td>
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<td>6,887</td>
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<td>40,239</td>
<td>6,088</td>
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<td>48,608</td>
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<td>20,814</td>
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<td>24,587</td>
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<td>17,784</td>
<td>1,833</td>
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<td>19,617</td>
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<td>15,902</td>
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<tr>
<td>33,960</td>
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<td>33,960</td>
</tr>
<tr>
<td>355,256</td>
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<td>415,881</td>
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<td>391,367</td>
<td>(121)</td>
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<tr>
<td>53,349</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>66,777</td>
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<td>66,777</td>
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<td>33,569</td>
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<td>48,269</td>
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<td>378,168</td>
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<td>378,168</td>
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<tr>
<td>13,199</td>
<td>(121)</td>
<td>24,635</td>
<td></td>
<td>37,713</td>
</tr>
<tr>
<td>5,335</td>
<td>18,786</td>
<td>(782)</td>
<td></td>
<td>23,339</td>
</tr>
<tr>
<td>(3,472)</td>
<td>--</td>
<td>--</td>
<td>(3,472)</td>
<td>(2,114)</td>
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<td>(2,114)</td>
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<td>(2,114)</td>
<td>--</td>
</tr>
<tr>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>(7,162)</td>
<td>--</td>
<td>--</td>
<td>(7,162)</td>
<td>(4,253)</td>
</tr>
<tr>
<td>(4,253)</td>
<td>--</td>
<td>--</td>
<td>(4,253)</td>
<td>--</td>
</tr>
<tr>
<td>--</td>
<td>225</td>
<td>(760)</td>
<td>(535)</td>
<td>--</td>
</tr>
<tr>
<td>(359)</td>
<td></td>
<td></td>
<td></td>
<td>(359)</td>
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<tr>
<td>(11,307)</td>
<td>18,652</td>
<td>(1,542)</td>
<td></td>
<td>5,803</td>
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<tr>
<td>1,892</td>
<td>18,531</td>
<td>23,093</td>
<td></td>
<td>43,516</td>
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<tr>
<td>(13,029)</td>
<td></td>
<td></td>
<td></td>
<td>(13,029)</td>
</tr>
<tr>
<td>(289,120)</td>
<td>283,005</td>
<td>6,115</td>
<td></td>
<td>--</td>
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<tr>
<td>(300,257)</td>
<td>301,536</td>
<td>29,208</td>
<td></td>
<td>30,487</td>
</tr>
<tr>
<td>768,804</td>
<td>113,610</td>
<td>526,434</td>
<td></td>
<td>1,408,848</td>
</tr>
<tr>
<td>$468,547</td>
<td>$415,146</td>
<td>$555,642</td>
<td>$1,439,335</td>
<td></td>
</tr>
</tbody>
</table>
### Baylor University

**Statements of Cash Flows**

For the Years Ended May 31, 2009 and 2008  
*(in thousands of dollars)*

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (Decrease) in Net Assets</td>
<td>$ (197,640)</td>
<td>$ 30,487</td>
</tr>
<tr>
<td>Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle</td>
<td>--</td>
<td>13,029</td>
</tr>
<tr>
<td>Depreciation</td>
<td>29,532</td>
<td>27,751</td>
</tr>
<tr>
<td>Net realized &amp; unrealized (gains) losses on investments</td>
<td>223,048</td>
<td>(23,339)</td>
</tr>
<tr>
<td>Unrealized loss on interest rate swap</td>
<td>4,709</td>
<td>3,472</td>
</tr>
<tr>
<td>Realized loss on interest rate swaps</td>
<td>--</td>
<td>7,162</td>
</tr>
<tr>
<td>Write off of debt issuance costs</td>
<td>--</td>
<td>4,253</td>
</tr>
<tr>
<td>Loss on disposal of property &amp; equipment</td>
<td>910</td>
<td>2,114</td>
</tr>
<tr>
<td>Contributions restricted for permanent investment</td>
<td>(15,784)</td>
<td>(21,581)</td>
</tr>
<tr>
<td>Decrease (increase) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>7,403</td>
<td>15,217</td>
</tr>
<tr>
<td>Student accounts receivable</td>
<td>(1,824)</td>
<td>(1,596)</td>
</tr>
<tr>
<td>Contributions, grants &amp; other receivables</td>
<td>16,204</td>
<td>298</td>
</tr>
<tr>
<td>Prepaid expenses &amp; other</td>
<td>(243)</td>
<td>412</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(2,133)</td>
<td>(8,190)</td>
</tr>
<tr>
<td>Personnel related liabilities</td>
<td>2,036</td>
<td>1,237</td>
</tr>
<tr>
<td>Deposits &amp; deferred income</td>
<td>522</td>
<td>2,844</td>
</tr>
<tr>
<td>Accrued postretirement benefits</td>
<td>(661)</td>
<td>2,466</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>250</td>
<td>21</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>66,329</strong></td>
<td><strong>56,057</strong></td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loans made</td>
<td>(396)</td>
<td>(885)</td>
</tr>
<tr>
<td>Proceeds from collections of student loans</td>
<td>637</td>
<td>1,011</td>
</tr>
<tr>
<td>Proceeds from sales of long-term investments</td>
<td>27,104</td>
<td>110,303</td>
</tr>
<tr>
<td>Purchases of long-term investments</td>
<td>(45,070)</td>
<td>(147,588)</td>
</tr>
<tr>
<td>Purchases of property, plant &amp; equipment</td>
<td>(57,684)</td>
<td>(66,321)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>(75,409)</strong></td>
<td><strong>(103,480)</strong></td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment</td>
<td>14,237</td>
<td>19,896</td>
</tr>
<tr>
<td>Annuity &amp; living trusts</td>
<td>1,547</td>
<td>1,685</td>
</tr>
<tr>
<td>Unexpended bond proceeds decrease</td>
<td>2,838</td>
<td>21,162</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>50,000</td>
<td>271,200</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(5,054)</td>
<td>(284,416)</td>
</tr>
<tr>
<td>Payment of interest rate swap liability</td>
<td>--</td>
<td>(7,162)</td>
</tr>
<tr>
<td>Debt issuance costs</td>
<td>--</td>
<td>(1,155)</td>
</tr>
<tr>
<td>Increase in federal student loan funds refundable</td>
<td>33</td>
<td>26</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td><strong>63,601</strong></td>
<td><strong>21,236</strong></td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash &amp; cash equivalents</strong></td>
<td><strong>54,521</strong></td>
<td><strong>26,187</strong></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents at beginning of year</td>
<td>14,894</td>
<td>41,081</td>
</tr>
<tr>
<td>Cash &amp; cash equivalents at end of year</td>
<td><strong>$ 69,415</strong></td>
<td><strong>$ 14,894</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
OVERVIEW OF BAYLOR UNIVERSITY

The mission of Baylor University (the “University”) is to educate men and women for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community.

Chartered in 1845 by the Republic of Texas and affiliated with the Baptist General Convention of Texas, the University is both the state's oldest institution of higher learning and the world's largest Baptist university. Established to be a servant of the church and of society, the University seeks to fulfill its calling through excellence in teaching and research, in scholarship and publication, and in service to the community, both local and global. The 800-acre campus is located on the banks of the Brazos River in Waco, Texas, a metropolitan area of 200,000 people.

While remaining true to its Christian heritage, the University has grown to approximately 14,500 students, and its nationally recognized academic units offer 147 undergraduate, 75 master’s, a Juris Doctor and 28 doctoral degree programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting & Reporting

The financial statements of the University include the accounts of the University, Waco Arbors Holding Corporation and Brazos Valley Public Broadcasting Foundation (KWBU), legally separate entities, the board of directors of which are chosen by the University’s Board of Regents. The University’s financial statements do not include the accounts of the Baylor Foundation, Baylor Bear Foundation, Baylor “B” Association or Baylor Alumni Association. These entities are excluded due to the nature of their relationship to the University or due to their aggregate assets, revenues, expenses and net assets not being significant in relation to the University.

The financial statements of the University are prepared in conformity with accounting principles generally accepted in the United States of America. The University’s net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- **Unrestricted** -- net assets that are not subject to donor-imposed restrictions.
- **Temporarily restricted** -- net assets subject to donor-imposed or legal restrictions that must be met either by actions of the University and/or the passage of time.
- **Permanently restricted** -- net assets subject to donor-imposed restrictions that the assets be maintained permanently. Generally, the donors of these assets permit the University to use all or part of the income earned on the related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Income and net gains and losses on investments in donor restricted endowments are reported as increases or decreases in temporarily restricted net assets until appropriated for expenditure by the University. All other gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as net assets released from temporary restrictions among applicable net asset classes.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the University, the internal accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. These financial statements, however, are prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions.

Cash & Cash Equivalents

Cash on deposit and all highly liquid financial instruments with maturities of three months or less are classified as cash and cash equivalents, except those amounts assigned to investment managers, which are classified as investments. Cash and cash equivalents reflected in the accompanying balance sheets as temporarily or permanently
restricted are funds from contributions that have donor-imposed restrictions limiting their use to future investment in plant or are awaiting long-term investment for other long-term purposes.

**Short-Term Investments**

Short-term investments consist of operational funds invested in bank time deposits, short-term U.S. government securities, those having maturities longer than three months but less than one year, and highly liquid money market funds. Short-term investments reflected in the accompanying balance sheets as temporarily or permanently restricted are funds from contributions that have donor-imposed restrictions limiting their use to future investment in plant or are awaiting long-term investment for other long-term purposes.

**Split Interest Agreements**

Split interest agreements consist primarily of gift annuities, charitable remainder unitrusts and annuity trusts, life income funds and perpetual trusts. Assets held under these agreements are included in long-term investments (see Note 4), except for agreements administered by the Baptist Foundation of Texas (“BFT”) and others as temporary trustees. The net present values of these agreements administered by the BFT and others as temporary trustees are reflected as unconditional promises to give (see Note 13). Annuities payable are recorded at the present value of future payments, based on the Internal Revenue Service (“IRS”) discount rate at the time of the original gift.

**Student Loans**

The assets and liabilities of student loans financed primarily by the federal government and administered by the University, primarily the Federal Perkins Loan Program, are included with those of the University. The total of the federal government portion of these net assets is included in other liabilities in the accompanying balance sheets.

**Property, Plant & Equipment**

Property, plant and equipment valued at $5,000 or more are recorded at cost at the date of acquisition or, if acquired by gift, at estimated fair value at the date of gift. Additions to plant assets are capitalized, while maintenance and minor renovations are charged to operations. Plant assets are reflected net of accumulated depreciation calculated on a straight-line basis over the estimated useful lives ranging from 3 to 50 years.

Conditional asset retirement obligations related to legal requirements to perform certain future activities related to the retirement, disposal or major renovation of assets are accrued utilizing site-specific surveys to estimate the net present value for applicable future costs, e.g., asbestos abatement or removal.

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset is less than the carrying value.

**Deposits & Deferred Income**

Deposits and deferred income consist of amounts billed or received for educational, research or auxiliary goods and services that have not yet been earned.

**Tuition & Fees**

Tuition and fees revenues are recognized in the fiscal year during which the related semester concludes. Scholarships provided by the University for tuition and fees are reflected as a reduction of tuition and fees revenues. Scholarships are awarded to students by the University from unrestricted revenues, restricted endowment earnings, restricted gifts or government grants. Scholarships do not include payments to students for services rendered to the University.

**Contributions**

Contributions are recorded as revenues in the appropriate net asset class based on donor-imposed restrictions. Expiration of temporary restrictions on donor contributions are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.
Donor contributions to fund construction projects are classified as temporarily restricted net assets until the facility is placed in service. At that time, the temporarily restricted net assets are released from restriction and replenish unrestricted net asset balances designated for plant projects. The University follows the policy of recording contributions of long-lived assets directly as invested in plant assets instead of recognizing the gift over the useful life of the asset.

Contributions receivable are recorded at the present value of estimated future cash flows using an average discount rate in effect in the year the contribution was recorded.

**Functional Allocation of Expenses**

The expenses of providing various programs and support services have been categorized on a functional basis in the statements of activities. Accordingly, expenses such as depreciation, interest expense and operation and maintenance of plant have been allocated directly or based on square footage among the functional categories.

Fundraising expenses of approximately $13,456,000 and $12,830,000 incurred by the University in 2009 and 2008, respectively, are included primarily in the institutional support category in the statements of activities.

**Use of Estimates & Assumptions**

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses during the reporting period, as well as the disclosure of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuations of certain investments which do not have readily determinable fair values, allowances for uncollectible accounts and contingency reserves, calculations of asset retirement obligations, interest rate swap liability and actuarially determined liabilities related to postretirement benefit plans. Actual results ultimately could differ from management’s estimates and assumptions.

**Other**

As discussed in Note 3, the University retroactively adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). The adoption of the provisions of FSP 117-1 required certain reclassifications of long-term investments, endowment net assets and unrealized gains (losses) on investments related to donor restricted endowment funds from unrestricted to temporarily restricted or permanently restricted in the accompanying balance sheet and statement of activities for the year ended May 31, 2008. This change has no impact on total long-term investments, endowment net assets or gains (losses) on investments as previously reported in the 2008 financial statements.

To provide additional information in the reporting of net assets and to conform to the May 31, 2009 statement presentation, unexpended internally designated funds for plant projects totaling $44,423,000 as of May 31, 2008, that had been reported previously in Net Invested in Plant net assets, have been separately reported in the accompanying May 31, 2008 balance sheet.

**2. FAIR VALUE MEASUREMENTS**

The estimated fair values of financial instruments that differ from the carrying amounts have been determined by the University using available market information. The estimates are not necessarily indicative of the amounts the University could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, short-term investments, bond proceeds held by trustees, student accounts receivable, prepaid expenses and other assets, accounts payable, personnel related liabilities and deposits and deferred income approximate fair value because of the short maturity of these financial instruments.

The carrying value of loans receivable from students under government loan programs is a reasonable estimate of fair value since the loans receivable cannot be sold and can only be assigned to the U.S. government or its designees. The fair value of loans receivable from students under University loan programs approximates carrying value.
In September 2006, FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies whenever other standards require or permit assets or liabilities to be measured at fair value, but it does not expand the use of fair value. In November 2007, the effective date of SFAS 157 was deferred for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis. The provisions of SFAS 157 that were not deferred are effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 157, effective June 1, 2008, did not have a significant effect on the University’s reported financial position.

The University currently records long-term investments and the liability for interest rate swap at fair value. SFAS 157 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University’s assumptions (unobservable inputs). Determining the level at which an asset or liability falls within the hierarchy requires significant judgment considering the lowest level input that is significant to the fair value measurement as a whole. The hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities
- Level 2 – Quoted market prices in active or inactive markets for similar assets or liabilities and inputs other than quoted prices that are observable
- Level 3 – Unobservable inputs developed using the University’s and/or third party estimates and assumptions, which reflect those that market participants would use.

The following table presents information about the University’s long-term investments that are measured at fair value as of May 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>$ 13,972</td>
<td>$ --</td>
<td>$ 59</td>
<td>$ 14,031</td>
</tr>
<tr>
<td>Equity securities</td>
<td>130,098</td>
<td>--</td>
<td>127,565</td>
<td>257,663</td>
</tr>
<tr>
<td>Alternative assets</td>
<td>--</td>
<td>--</td>
<td>404,068</td>
<td>404,068</td>
</tr>
<tr>
<td>Real estate &amp; other</td>
<td>--</td>
<td>--</td>
<td>4,196</td>
<td>4,196</td>
</tr>
<tr>
<td>Mineral rights</td>
<td>--</td>
<td>--</td>
<td>117,970</td>
<td>117,970</td>
</tr>
<tr>
<td>Income interests/perpetual trusts</td>
<td>--</td>
<td>--</td>
<td>138,053</td>
<td>138,053</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 144,070</td>
<td>$ --</td>
<td>$ 791,911</td>
<td>$ 935,981</td>
</tr>
</tbody>
</table>

The following table presents additional information about assets that have been measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>June 1, 2008 Balance</th>
<th>Additions and (Distributions), Net</th>
<th>Realized and Unrealized Gains (Losses)</th>
<th>May 31, 2009 Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>$ 61</td>
<td>$ (2)</td>
<td>$ --</td>
<td>$ 59</td>
</tr>
<tr>
<td>Equity securities</td>
<td>187,089</td>
<td>(9,488)</td>
<td>(50,036)</td>
<td>127,565</td>
</tr>
<tr>
<td>Alternative assets</td>
<td>446,561</td>
<td>46,624</td>
<td>(89,117)</td>
<td>404,068</td>
</tr>
<tr>
<td>Real estate &amp; other</td>
<td>2,647</td>
<td>163</td>
<td>4,196</td>
<td>4,196</td>
</tr>
<tr>
<td>Mineral rights</td>
<td>66,286</td>
<td>(28,852)</td>
<td>80,536</td>
<td>117,970</td>
</tr>
<tr>
<td>Income interests/perpetual trusts</td>
<td>176,581</td>
<td>2,273</td>
<td>(40,801)</td>
<td>138,053</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 879,225</td>
<td>$ 10,718</td>
<td>$ (98,032)</td>
<td>$ 791,911</td>
</tr>
</tbody>
</table>

As of May 31, 2009, the fair value of the University’s interest rate swap liability was $27,561,000, which was measured using Level 2 valuation techniques.
In February 2007, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FASB 159), including an amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. This statement permits entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University elected not to value any additional investments or other financial assets or liabilities at fair value as provided for in FASB 159. Accordingly, there is no impact on the financial statements resulting from FASB 159.

3. **ENDOWMENT**

The University retroactively adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor restricted and board designated. As a result of the adoption of FSP117-1, net assets totaling $283,005,000 related to donor restricted endowment funds, that had been classified previously as unrestricted net assets, were reclassified to temporarily restricted net assets. Also, $6,115,000 of net assets related to donor restricted endowment funds, that had been classified previously as unrestricted net assets, were reclassified to permanently restricted net assets. These reclassifications have been reported as a cumulative effect of change in accounting principle in the statement of activities for the year ended May 31, 2008. In addition to this reclassification of net assets, $15,107,000 of net gains on investments for the year ended May 31, 2008, that were reported previously as unrestricted gains (losses) on investments, net of distributions, have been reclassified to $15,677,000 of temporarily restricted gains on investments and $570,000 of permanently restricted losses on investments in the statement of activities for the year ended May 31, 2008.

**Interpretation of Relevant Law**

The Board of Regents (the “Board”) of the University has established policy consistent with UPMIFA as adopted by the state of Texas. The University seeks to preserve the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the University classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor agreement at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Board designated endowment net assets include gifts and other revenues that have been designated by the Board to function as endowment. These funds may be expended at the discretion of the Board. Also included are certain temporarily restricted net assets that have not been expended for their restricted purpose but are being invested and the earnings expended for the restricted purpose.
Changes in endowment net assets for the year ended May 31, 2009 are as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, June 1, 2008</td>
<td>$161,710</td>
<td>$376,649</td>
<td>$530,575</td>
<td>$1,068,934</td>
</tr>
<tr>
<td>Earnings</td>
<td>7,426</td>
<td>601</td>
<td>45,208</td>
<td>53,235</td>
</tr>
<tr>
<td>Gains (losses) on investments</td>
<td>(40,053)</td>
<td>(153,663)</td>
<td>(19,830)</td>
<td>(213,546)</td>
</tr>
<tr>
<td>Contributions</td>
<td>--</td>
<td>--</td>
<td>14,200</td>
<td>14,200</td>
</tr>
<tr>
<td>Terminated annuities &amp; other</td>
<td>--</td>
<td>--</td>
<td>2,140</td>
<td>2,140</td>
</tr>
<tr>
<td>Transfers to board designated</td>
<td>4,905</td>
<td>1,097</td>
<td>--</td>
<td>6,002</td>
</tr>
<tr>
<td>Distributed earnings</td>
<td>(7,349)</td>
<td>(601)</td>
<td>(42,759)</td>
<td>(50,709)</td>
</tr>
<tr>
<td>Endowment net assets, May 31, 2009</td>
<td>$126,639</td>
<td>$224,083</td>
<td>$529,534</td>
<td>$880,256</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the year ended May 31, 2008 are as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, June 1, 2007</td>
<td>$442,201</td>
<td>$73,960</td>
<td>$497,883</td>
<td>$1,014,044</td>
</tr>
<tr>
<td>Reclassification due to change in accounting principle</td>
<td>(289,120)</td>
<td>283,005</td>
<td>6,115</td>
<td>--</td>
</tr>
<tr>
<td>Earnings</td>
<td>7,484</td>
<td>570</td>
<td>42,948</td>
<td>51,002</td>
</tr>
<tr>
<td>Gains (losses) on investments</td>
<td>4,281</td>
<td>18,731</td>
<td>(799)</td>
<td>22,213</td>
</tr>
<tr>
<td>Contributions</td>
<td>--</td>
<td>--</td>
<td>19,640</td>
<td>19,640</td>
</tr>
<tr>
<td>Terminated annuities &amp; other</td>
<td>--</td>
<td>(25)</td>
<td>5,519</td>
<td>5,494</td>
</tr>
<tr>
<td>Transfers to board designated</td>
<td>4,171</td>
<td>978</td>
<td>--</td>
<td>5,149</td>
</tr>
<tr>
<td>Distributed earnings</td>
<td>(7,307)</td>
<td>(570)</td>
<td>(40,731)</td>
<td>(48,608)</td>
</tr>
<tr>
<td>Endowment net assets, May 31, 2008</td>
<td>$161,710</td>
<td>$376,649</td>
<td>$530,575</td>
<td>$1,068,934</td>
</tr>
</tbody>
</table>

Funds totaling $9,472,000 and $0, which market values are less than original values, are reported in unrestricted net assets in the accompanying balance sheets as of May 31, 2009 and 2008, respectively.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to meet three objectives: (1) provide a predictable, stable stream of earnings to participating accounts; (2) ensure that the purchasing power of this revenue stream does not decline over time; and (3) ensure that the purchasing power of the endowment assets do not decline over time. To meet its long-term rate-of-return objectives, the University relies on a total return strategy utilizing both income and growth to maximize the risk adjusted return through diversification of the assets. Under this policy, actual earnings, as well as a prudent portion of realized and unrealized gains, may be distributed for operational needs or in accordance with donor restrictions. Accordingly, the endowment assets are invested in a diversified manner that is intended to produce results that exceed its long-term performance benchmarks. The University expects its endowment funds, over time, to provide an average rate of return of approximately 8.9% annually. Actual returns in any given year may vary from this amount.
Spending Policy and How the Investment Objectives Relate to Spending Policy

The Baylor University Fund (“BUF”) is a unitized fund consisting of equity securities, debt securities, alternative assets and mineral rights, and serves as the primary investment vehicle for the University’s endowment and other long-term investments. As permitted under Texas law, the Board has adopted a spending policy for the BUF that authorizes a dividend to be paid for endowments participating in the BUF to be used for the purposes intended by donors. For the years ended May 31, 2009 and 2008, this dividend was based on 5% of the previous 48 months’ average market value per unit of the BUF subject to a 0% minimum and 6% maximum dividend rate increase from the previous year. However, the annual distribution amount shall not exceed 7% of the average fair market value of the BUF (calculated over a period of four years immediately preceding the year in which the distribution was made). The dividend rate did not change during the years ended May 31, 2009 and 2008. Endowment earnings distributed include endowment distributions in accordance with the University’s BUF spending policy, as well as, distributions of income from other endowment assets.

In establishing this spending policy, the University considered the long-term expected return on its endowment assets. Accordingly, the University expects the current spending policy to preserve the real purchasing power of the endowment assets, while helping to maintain intergenerational equity of the assets, as well as to provide additional real growth through new gifts and investment return.

4. LONG-TERM INVESTMENTS

The University’s long-term investments are recorded at fair value. The estimated fair value of investments is based on quoted market prices, except for certain investments, as described in Note 2, for which quoted market prices are not available. The estimated fair value of alternative assets is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through May 31. The University reviewed and evaluated the values provided by the managers and agreed with the valuation methods and assumptions used to determine those values. Therefore, the University believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets 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. The fair value of real estate is determined from the most recent information available to the University (i.e., appraisals and/or property tax statements). The fair value of mineral rights is estimated based on the income stream generated by those assets.

Estimated fair value of investments as of May 31, 2009 and 2008, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td>$14,031</td>
<td>$33,394</td>
</tr>
<tr>
<td>Equity securities</td>
<td>257,663</td>
<td>404,389</td>
</tr>
<tr>
<td>Alternative assets</td>
<td>404,068</td>
<td>458,020</td>
</tr>
<tr>
<td>Real estate &amp; other</td>
<td>4,196</td>
<td>2,647</td>
</tr>
<tr>
<td>Mineral rights</td>
<td>117,970</td>
<td>66,032</td>
</tr>
<tr>
<td>Income interests/perpetual trusts</td>
<td>138,053</td>
<td>176,581</td>
</tr>
<tr>
<td>Total investments</td>
<td>$935,981</td>
<td>$1,141,063</td>
</tr>
</tbody>
</table>

The cost of long-term investments was $762,996,000 and $742,102,000 as of May 31, 2009 and 2008, respectively.

Mineral rights, with an estimated fair value of $56,037,000 as of May 31, 2008, that were included as a component of real assets within the alternative assets investment grouping as of May 31, 2008, were reclassified as mineral rights to be consistent with the reporting and classification of these assets as of May 31, 2009. Also, investments held by income interests/perpetual trusts, with an estimated fair value of $176,581,000 as of May 31, 2008, that were included within the individual investment groupings as of May 31, 2008, were reclassified as a
separate component of investments to be consistent with the reporting and classification of these assets as of May 31, 2009.

Net appreciation (depreciation) in the fair value of investments, which consists of realized gains and losses and unrealized appreciation (depreciation) on those investments, is shown in the statements of activities.

Alternative assets are typically not as liquid as other University investments. At May 31, 2009, alternative assets are invested with fifty-eight different managers. The total fair values by strategy type are as follows:

<table>
<thead>
<tr>
<th>(in thousands of dollars)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private equity</td>
<td>$137,336</td>
<td>$134,388</td>
</tr>
<tr>
<td>Absolute return</td>
<td>110,595</td>
<td>167,211</td>
</tr>
<tr>
<td>Real assets</td>
<td>156,137</td>
<td>156,421</td>
</tr>
<tr>
<td>Total alternative assets</td>
<td>$404,068</td>
<td>$458,020</td>
</tr>
</tbody>
</table>

Investment returns for the years ended May 31, 2009 and 2008, consist of the following:

<table>
<thead>
<tr>
<th>(in thousands of dollars)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment earnings distributed</td>
<td>$50,709</td>
<td>$48,608</td>
</tr>
<tr>
<td>Net appreciation (depreciation), realized and unrealized</td>
<td>$(223,048)</td>
<td>23,339</td>
</tr>
<tr>
<td>Total investment returns</td>
<td>$(172,339)</td>
<td>$71,947</td>
</tr>
</tbody>
</table>

The total investment returns are net of investment expenses of $3,481,000 and $5,138,000 for the years ended May 31, 2009 and 2008, respectively.

5. PROPERTY, PLANT & EQUIPMENT

At May 31, 2009 and 2008, property, plant and equipment assets consist of the following:

<table>
<thead>
<tr>
<th>(in thousands of dollars)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$55,155</td>
<td>$40,923</td>
</tr>
<tr>
<td>Buildings</td>
<td>658,509</td>
<td>622,886</td>
</tr>
<tr>
<td>Equipment</td>
<td>72,678</td>
<td>65,641</td>
</tr>
<tr>
<td>Other</td>
<td>109,999</td>
<td>105,339</td>
</tr>
<tr>
<td></td>
<td>896,341</td>
<td>834,789</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(282,760)</td>
<td>(265,146)</td>
</tr>
<tr>
<td></td>
<td>613,581</td>
<td>569,643</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>13,654</td>
<td>30,350</td>
</tr>
<tr>
<td>Property, plant &amp; equipment, net</td>
<td>$627,235</td>
<td>$599,993</td>
</tr>
</tbody>
</table>

Depreciation expense was $29,532,000 and $27,751,000 for the years ended May 31, 2009 and 2008, respectively. Real and personal property were insured for $1.3 billion at May 31, 2009 and 2008.

The liability for conditional asset retirement obligations was $3,712,000 and $3,413,000 as of May 31, 2009 and 2008, respectively, and is included in other liabilities in the accompanying balance sheets.

6. NOTES & BONDS PAYABLE

Notes and bonds payable consisting of both non-interest bearing unsecured notes and interest bearing unsecured and secured notes, commercial paper with varying maturities, and bonds with varying terms and maturity dates to March 1, 2036 were $322,400,000 and $277,454,000 at May 31, 2009 and 2008, respectively. Interest
payments on a cash basis totaled $13,543,000 and $15,443,000, and interest expense was $13,703,000 and $15,560,000 for the years ended May 31, 2009 and 2008, respectively.

During the fiscal year ended May 31, 2008, the University issued $271,200,000 of tax-exempt refunding bonds through the Waco Education Finance Corporation in order to refund the Series 2002 and 2006 bonds. The effect of the refunding of the Series 2002 and 2006 bonds was a non-operating charge in the fiscal year ended May 31, 2008 of $4,253,000 for the write off of unamortized bond issuance costs. As of May 31, 2009 and 2008, unamortized bond and commercial paper issuance costs of $1,307,000 and $1,147,000, respectively, are included in prepaid expenses and other in the University’s balance sheets. Amortization expense for issuance costs was $52,000 and $181,000 for the years ended May 31, 2009 and 2008, respectively.

Notes and bonds payable at May 31, 2009 and 2008, consist of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-interest bearing unsecured note payable to a foundation, due in annual installations beginning June 30, 2004 to June 30, 2013</td>
<td>$ 2,500</td>
<td>$ 3,000</td>
</tr>
<tr>
<td>Non-interest bearing unsecured note payable to a foundation, due in quarterly installments as repayments from loans to students are received</td>
<td>357</td>
<td>597</td>
</tr>
<tr>
<td>Non-interest bearing unsecured notes payable to a corporation, due in monthly installments through September 1, 2008</td>
<td>--</td>
<td>84</td>
</tr>
<tr>
<td>Secured note payable to a private entity (secured by land), bearing interest at 7.5%, due in annual installments of $747,314 to January 2, 2012</td>
<td>1,943</td>
<td>2,503</td>
</tr>
<tr>
<td>Non-interest bearing unsecured note payable to a private entity, due in annual installments through June 30, 2008</td>
<td>--</td>
<td>70</td>
</tr>
<tr>
<td>Taxable Commercial Paper Notes, Series A, with varying maturities and discount rates rolled at each occurrence of a maturity</td>
<td>50,000</td>
<td>--</td>
</tr>
<tr>
<td>Series 2008A Waco Education Finance Corporation Tax-Exempt Variable Rate Demand Bonds, swapped to a fixed rate of 4.91% (see Note 7), interest payable semiannually, principal payable annually to February 1, 2032</td>
<td>77,750</td>
<td>79,550</td>
</tr>
<tr>
<td>Series 2008B Waco Education Finance Corporation Tax-Exempt Variable Rate Demand Bonds, swapped to a fixed rate of 4.91% (see Note 7), interest payable semiannually, principal payable annually to February 1, 2032</td>
<td>77,750</td>
<td>79,550</td>
</tr>
<tr>
<td>Series 2008C Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 5.0% to 5.25% payable semiannually, principal payable annually beginning 2019 to March 1, 2036</td>
<td>112,100</td>
<td>112,100</td>
</tr>
</tbody>
</table>

Total notes & bonds payable

$322,400

$277,454

The fair values of notes and bonds payable were approximately $322,562,000 and $280,451,000 as of May 31, 2009 and 2008, respectively.

Excluding the maturity of commercial paper, principal and interest on long-term notes and bonds for the periods subsequent to May 31, 2009, are as follows:

<table>
<thead>
<tr>
<th>(in thousands of dollars)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 and Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>$ 5,026</td>
<td>$ 5,222</td>
<td>$ 5,420</td>
<td>$ 4,907</td>
<td>$ 5,075</td>
<td>$ 246,750</td>
<td>$ 272,400</td>
</tr>
<tr>
<td>Interest</td>
<td>13,461</td>
<td>13,230</td>
<td>12,987</td>
<td>12,731</td>
<td>12,515</td>
<td>171,164</td>
<td>236,088</td>
</tr>
<tr>
<td>Total</td>
<td>$ 18,487</td>
<td>$ 18,452</td>
<td>$ 18,407</td>
<td>$ 17,638</td>
<td>$ 17,590</td>
<td>$ 417,914</td>
<td>$ 508,488</td>
</tr>
</tbody>
</table>

- 15 -
In November 2008, the University was authorized by the Board to issue commercial paper in an aggregate principal amount not to exceed $50,000,000 outstanding at any one time, designated as “Baylor University Taxable Commercial Paper Notes, Series A”. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed $15,000,000 maturing on any one day with maturities not to exceed 270 days. In December 2008, the University issued commercial paper with varying maturities and interest rates in an aggregate total of $50,000,000. At May 31, 2009, the University had an outstanding balance of $50,000,000 with various maturities to September 2, 2009 and with an average interest rate of 0.624%. The University anticipates that the commercial paper will continue to be rolled at maturity until such time that it is refunded by long-term debt.

The estimated fair value of the commercial paper notes approximates the face value.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The University has a long-term interest rate swap agreement with financial institution counterparty to manage the interest cost and risk associated with its outstanding debt. The purpose of this agreement is to swap the University’s Series 2008A/B variable rate demand bonds having a balance of $155,500,000 as of May 31, 2009, for a fixed rate of 4.91% through February 1, 2032. The swap agreements related to the Series 2002B and 2006 bond issues were terminated at the time these issues were refunded in April 2008, resulting in a realized loss of $7,162,000 for the year ended May 31, 2008. The value of the interest rate swap represents the estimated cost to terminate at the reporting date, taking into account current and projected interest rates. The fair value of the interest rate swap included in the University’s balance sheets as a liability at May 31, 2009 and 2008, was $27,561,000 and $22,852,000, respectively. To control credit risk, the University considered the credit rating and reputation of the counterparty before entering into the transaction and monitors the credit standing of its counterparty. The change in net assets resulting from changes in the swap’s fair value resulted in an unrealized loss of $4,709,000 and $3,472,000 for the years ended May 31, 2009 and 2008, respectively.

On September 15, 2008, the guarantor of the University’s long-term interest rate swap agreement filed for bankruptcy. While the financial institution counterparty is not a part of this bankruptcy, the filing of bankruptcy by the guarantor has created an event of default under the terms of the swap agreement. The event of default provides the University with an ongoing right to early termination of the agreement. At the time of issuance of these financial statements, the University has not exercised its right to terminate the swap agreement.

The University also has in place, through a financial institution, a total return investment swap agreement with initial notional values of $23,942,000 and $25,700,000, and market gains of $2,682,000 and $2,903,000, as of May 31, 2009 and 2008, respectively. This swap agreement is related to a particular investment fund within the BUF, and these gains are reflected within the market value of the BUF on the University’s financial statements for the years ended May 31, 2009 and 2008.

8. EXPENSES BY NATURAL CLASSIFICATION

While the statements of activities present expenses by function, the University’s expenses by natural classification are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; wages</td>
<td>$157,851</td>
<td>$146,952</td>
</tr>
<tr>
<td>Personnel benefits</td>
<td>52,509</td>
<td>46,478</td>
</tr>
<tr>
<td>Student wages &amp; fellowships</td>
<td>16,688</td>
<td>15,147</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>140,180</td>
<td>126,103</td>
</tr>
<tr>
<td>Depreciation &amp; accretion</td>
<td>29,739</td>
<td>27,928</td>
</tr>
<tr>
<td>Interest on indebtedness</td>
<td>13,703</td>
<td>15,560</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$410,670</strong></td>
<td><strong>$378,168</strong></td>
</tr>
</tbody>
</table>
9. RETIREMENT PLAN

The University has a noncontributory retirement plan covering all full-time faculty and staff. The plan is a defined contribution plan and is administered by outside agencies. Retirement benefits equal the amount accumulated to each individual employee’s credit at the date of retirement. The University’s contributions to the plan for the years ended May 31, 2009 and 2008, were $14,665,000 and $12,266,000, respectively.

10. POSTRETIREMENT BENEFITS

The University provides medical and life insurance benefits for eligible retired faculty and staff. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. Through May 31, 2002, full-time faculty and staff became eligible for these benefits upon reaching age 55 and having 20 years of full-time service at retirement. The lifetime maximum on group medical benefits is $2,000,000, and the maximum benefit for life insurance is $20,000. Medical cost inflation rates are assumed to be 9% for the first year decreasing by .5% to an ultimate of 5%. The inflation rates for retiree contributions are assumed to be the same as the medical cost inflation rates except for the first year, in which the increase is assumed to be 8%.

Effective June 1, 2002, employees attaining the age of 55 with 20 years of continuous, full-time service at the University as of May 31, 2007, continue under the postretirement medical and life insurance programs in effect before June 1, 2002. Those employees not meeting the above eligibility requirements may still participate in the postretirement medical program but will receive no postretirement life insurance benefits and will not be reimbursed for Medicare Part B premiums. Under the new plan, all full-time faculty and staff become eligible for postretirement benefits upon reaching age 55 and having 10 years of full-time service at retirement.

The University follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions. This statement requires that the expected cost of postretirement benefits be charged to operations on an accrual basis during the years that the faculty and staff render service. SFAS No. 106 also required that the accumulated obligation at the implementation date be recognized as a liability and that an offsetting amount be recognized as a reduction in net assets or amortized as expenditure over 20 years. The University chose to amortize the accumulated postretirement benefits over 20 years.

The following tables set forth the required disclosures and unfunded status of postretirement benefits as well as the components of net periodic benefit costs and weighted-average assumptions as of the measurement date, May 31:

(in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measurement date</td>
<td>5/31/2009</td>
<td>5/31/2008</td>
</tr>
<tr>
<td>Accumulated postretirement benefit obligation (APBO)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>at beginning of year</td>
<td>$ 33,754</td>
<td>$ 30,331</td>
</tr>
<tr>
<td>Service cost</td>
<td>963</td>
<td>833</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,237</td>
<td>1,812</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>1,317</td>
<td>1,217</td>
</tr>
<tr>
<td>Plan changes</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Actuarial (gain) loss</td>
<td>(2,550)</td>
<td>2,036</td>
</tr>
<tr>
<td>Retiree drug subsidy paid</td>
<td>224</td>
<td>315</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(2,852)</td>
<td>(2,790)</td>
</tr>
<tr>
<td>Accumulated postretirement benefit obligation (APBO)</td>
<td>$ 33,093</td>
<td>$ 33,754</td>
</tr>
<tr>
<td>at end of year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Change in plan assets:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$ --</td>
<td>$ --</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>1,535</td>
<td>1,572</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>1,317</td>
<td>1,218</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(2,852)</td>
<td>(2,790)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>$ --</td>
<td>$ --</td>
</tr>
</tbody>
</table>

## Funded status of plan:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts recognized as changes in unrestricted net assets arising from postretirement benefits plan but not yet included in periodic benefit cost:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition obligation</td>
<td>$ 1,095</td>
<td>$ 1,369</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>3,440</td>
<td>4,083</td>
</tr>
<tr>
<td>Net (gain)/loss</td>
<td>4,775</td>
<td>7,577</td>
</tr>
<tr>
<td>Total</td>
<td>$ 9,310</td>
<td>$ 13,029</td>
</tr>
</tbody>
</table>

The University expects to amortize, from accumulated unrestricted net assets, $274,000 of transition obligation, $643,000 of prior service costs and $87,000 of net losses as components of net periodic benefit cost during the fiscal year ending May 31, 2010.

## Weighted-average assumptions at measurement date:

<table>
<thead>
<tr>
<th></th>
<th>5/31/2009</th>
<th>5/31/2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7.63%</td>
<td>6.75%</td>
</tr>
<tr>
<td>Health care cost trend rate</td>
<td>9.00%</td>
<td>9.00%</td>
</tr>
<tr>
<td>Ultimate health care cost trend rate</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year ultimate trend rate reached</td>
<td>2017</td>
<td>2016</td>
</tr>
</tbody>
</table>

## Contributions:

The University expects to contribute $1,416,000 to its postretirement benefit plan during the fiscal year ending May 31, 2010.

## Projected cash flows:

<table>
<thead>
<tr>
<th></th>
<th>Gross Benefit Payments Net of Employee Contributions</th>
<th>Gross Subsidy Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 Fiscal year</td>
<td>$ 1,618</td>
<td>$ 202</td>
</tr>
<tr>
<td>2011 Fiscal year</td>
<td>1,740</td>
<td>222</td>
</tr>
<tr>
<td>2012 Fiscal year</td>
<td>1,816</td>
<td>247</td>
</tr>
<tr>
<td>2013 Fiscal year</td>
<td>1,965</td>
<td>275</td>
</tr>
<tr>
<td>2014 Fiscal year</td>
<td>2,140</td>
<td>303</td>
</tr>
<tr>
<td>2015-2019 Fiscal years</td>
<td>13,121</td>
<td>2,168</td>
</tr>
</tbody>
</table>
Components of net periodic postretirement benefit cost:

<table>
<thead>
<tr>
<th></th>
<th>6/1/2008-</th>
<th>6/1/2007-</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5/31/2009</td>
<td>5/31/2008</td>
</tr>
<tr>
<td>Service cost</td>
<td>963</td>
<td>833</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,237</td>
<td>1,812</td>
</tr>
<tr>
<td>Amortization of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition obligation</td>
<td>273</td>
<td>274</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>643</td>
<td>643</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>253</td>
<td>161</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>$4,369</td>
<td>$3,723</td>
</tr>
</tbody>
</table>

Other changes in plan assets and benefit obligation recognized in net assets:

<table>
<thead>
<tr>
<th></th>
<th>6/1/2008-</th>
<th>6/1/2007-</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5/31/2009</td>
<td>5/31/2008</td>
</tr>
<tr>
<td>Net actuarial (gain) loss</td>
<td>(2,550)</td>
<td>N/A</td>
</tr>
<tr>
<td>Amortization of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition obligation</td>
<td>(273)</td>
<td>N/A</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>(643)</td>
<td>N/A</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>(253)</td>
<td>N/A</td>
</tr>
<tr>
<td>Total recognized in net assets</td>
<td>(3,719)</td>
<td>--</td>
</tr>
</tbody>
</table>

Total recognized in net assets and net periodic benefit cost $650

Weighted-average assumptions for net periodic postretirement benefit cost:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>6.75%</td>
<td>6.09%</td>
</tr>
<tr>
<td>Health care cost trend rate</td>
<td>9.0%</td>
<td>8.50%</td>
</tr>
<tr>
<td>Ultimate health care cost trend rate</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year ultimate trend rate reached</td>
<td>2016</td>
<td>2014</td>
</tr>
<tr>
<td>Average future working lifetime (years)</td>
<td>16.6</td>
<td>16.6</td>
</tr>
</tbody>
</table>

Other Information:

<table>
<thead>
<tr>
<th></th>
<th>6/1/2008-</th>
<th>6/1/2007-</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5/31/2009</td>
<td>5/31/2008</td>
</tr>
<tr>
<td>1% increase in trend rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect on service + interest cost</td>
<td>$406</td>
<td>$278</td>
</tr>
<tr>
<td>Effect on APBO</td>
<td>3,190</td>
<td>3,297</td>
</tr>
<tr>
<td>1% decrease in trend rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect on service + interest cost</td>
<td>$(318)</td>
<td>$(216)</td>
</tr>
<tr>
<td>Effect on APBO</td>
<td>(2,604)</td>
<td>(2,674)</td>
</tr>
</tbody>
</table>

As of May 31, 2008, the University adopted Financial Accounting Standards Board (“FASB”) Statement No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment to FASB Statements No. 87, 88, 106 and 132R. Statement No. 158 required the recognition of the over funded or under funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets.
At May 31, 2008, the under funded components of postretirement benefit costs prior to adopting Statement No. 158 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount (in thousands of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrecognized transition obligation</td>
<td>$1,369</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>4,083</td>
</tr>
<tr>
<td>Unrecognized net loss</td>
<td>7,577</td>
</tr>
<tr>
<td><strong>Total unrecognized items</strong></td>
<td><strong>$13,029</strong></td>
</tr>
</tbody>
</table>

The cumulative effect of Statement No. 158 resulted in an increase in the postretirement benefit plan liability and a decrease in unrestricted net assets of $13,029,000, recognized as a cumulative effect of change in accounting principle in the statement of activities for the year ended May 31, 2008.

11. OUTSTANDING LEGACIES

The University is the beneficiary under various wills and trust agreements, the realizable amounts of which are not presently determinable. The University’s share of such bequests is recorded when the University has an irrevocable right to the bequest and the proceeds are measurable.

12. TAX STATUS & ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The University is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The University has been classified as an organization that is not a private foundation, and contributions to it qualify for deduction as charitable contributions. The University files unrelated business income tax and other information returns as required by government authorities. A provision has been made for unrelated business income taxes in the accompanying financial statements.

The University adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”), effective June 1, 2007. FIN 48 requires that the University recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. FIN 48 also provides guidance on measurement, classification, interest and penalties and disclosure. Tax positions taken related to the University’s tax exempt status, unrelated business activities taxable income and the deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits. As of May 31, 2009, the University’s tax years 2006 to 2009 remain subject to examination.

13. UNCONDITIONAL PROMISES TO GIVE

As pledges are made to the University, the intent of the donor, the circumstances surrounding the pledge and any action taken by the University in response to the pledge are considered in determining whether the pledge is an “intent to give” or an “unconditional promise to give.” An intent to give is not recorded as revenue until collected or when converted to an unconditional promise to give. An unconditional promise to give is recorded as a contribution receivable and as revenue at the present value of the estimated future cash flows.

Intents to give total $14,778,000 and $22,687,000 as of May 31, 2009 and 2008, respectively. Payments on these intents to give are due in varying periods.
As of May 31, 2009 and 2008, unconditional promises to give consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted current funds</td>
<td>$123</td>
<td>$409</td>
</tr>
<tr>
<td>Plant projects:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due in 1 year</td>
<td>300</td>
<td>500</td>
</tr>
<tr>
<td>Due in 1 to 5 years</td>
<td>3,194</td>
<td>2,100</td>
</tr>
<tr>
<td>Split interest agreements</td>
<td>19,730</td>
<td>23,085</td>
</tr>
<tr>
<td>Less: Present value adjustment</td>
<td>(7,931)</td>
<td>(10,211)</td>
</tr>
<tr>
<td><strong>Total contributions receivable</strong></td>
<td><strong>$15,416</strong></td>
<td><strong>$15,883</strong></td>
</tr>
</tbody>
</table>

The unconditional promises to give related to split interest agreements are discounted based on life expectancies of the annuity recipients.

14. COMMITMENTS & CONTINGENCIES

Capital Expenditures
The University is contractually obligated for amounts aggregating a maximum of approximately $11,039,000 and $20,764,000 at May 31, 2009 and 2008, respectively. Such obligations relate primarily to capital projects.

Leases
The University incurred $864,000 and $823,000 in operating lease expenses for facilities and equipment in the fiscal years ended May 31, 2009 and 2008, respectively. As of May 31, 2009, the University has lease commitments for future periods totaling approximately $1,696,000.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 and Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$666</td>
<td>$558</td>
<td>$181</td>
<td>$48</td>
<td>$23</td>
<td>$3</td>
<td>$1,479</td>
</tr>
<tr>
<td>Other</td>
<td>138</td>
<td>34</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>21</td>
<td>217</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$804</strong></td>
<td><strong>$592</strong></td>
<td><strong>$189</strong></td>
<td><strong>$56</strong></td>
<td><strong>$31</strong></td>
<td><strong>$24</strong></td>
<td><strong>$1,696</strong></td>
</tr>
</tbody>
</table>

Investments
As part of the University’s alternative assets program, the University is obligated under certain limited partnership agreements to advance funding up to specified levels upon the request of the general partner. The University had unfunded commitments of $159,691,000 and $226,753,000 at May 31, 2009 and 2008, respectively, which are expected to be called over the next five years.

Contingencies
The University is a party to various legal proceedings and complaints arising in the ordinary course of operations, some of which are covered by insurance. The administration is not aware of any claims or contingencies, which are not covered by insurance, that would be material to the financial position of the University.

The University participates in several state and federal grant programs and must comply with requirements of the grantor agencies. The administration is of the opinion that the University is in compliance with these grantor requirements.
15. NEW ACCOUNTING PRONOUNCEMENTS

In March 2008, FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The statement requires qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative instruments. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. The University is in the process of determining the financial impact of Statement No. 161.