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Azusa Pacific University

Report on Consolidated Financial Statements
For the Years Ended June 30, 2007 and 2006

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees
Azusa Pacific University

In our opinion, the accompanying consolidated statements of financial position and the related statements of activities and cash flows, present fairly, in all material respects, the financial position of Azusa Pacific University at June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America These financial statements are the responsibility of Azusa Pacific University 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 audits 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

PricewaterhouseCoopers LLP

January 9, 2008

Azusa Pacific University
Consolidated Statement of Financial Position
As of June 30, 2007

	Operating	Capital	Total
Assets			
Cash and cash equivalents	$ 22,425,146	$ 27,337,141	$ 49,762,287
Investments (Note 3)	3,283,545	61,518,105	64,801,650
Accounts receivable, less allowance for doubtful accounts of $1,327,665	7,273,328	–	7,273,328
Contributions receivable, net (Note 4)	419,810	4,426,964	4,846,774
Inventories	2,019,223	–	2,019,223
Loans to students, less allowance for doubtful accounts of $410,000	5,400,611	–	5,400,611
Assets whose use is limited – debt service (Note 2)	–	1,022,972	1,022,972
Interest rate swap	–	1,194,341	1,194,341
Deposits and other assets	2,518,571	361,965	2,880,536
Land, buildings, and equipment, net (Note 5)	–	121,903,851	121,903,851
Due to/from	(8,842,414)	8,842,414	–
Total assets	$ 34,497,820	$ 226,607,753	$ 261,105,573
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	$ 8,732,961	$ 619,099	$ 9,352,060
Accrued interest payable	–	270,509	270,509
Deferred revenue	3,384,542	–	3,384,542
Annuities payable	–	1,851,913	1,851,913
Trust liabilities due to others (Note 2)	–	460,187	460,187
Government grants refundable	4,421,847	–	4,421,847
Notes and bonds payable (Note 6)	9,262	41,222,562	41,231,824
Conditional asset retirement obligation (Note 11)	–	1,198,731	1,198,731
Other liabilities	1,114,265	107,335	1,221,600
Total liabilities	17,662,877	45,730,336	63,393,213
Commitments and contingencies (Note 9)			
Net assets			
Unrestricted	14,629,656	142,267,154	156,896,810
Temporarily restricted (Note 8)	2,205,287	20,008,260	22,213,547
Permanently restricted (Note 8)	–	18,602,003	18,602,003
Total net assets	16,834,943	180,877,417	197,712,360
Total liabilities and net assets	$ 34,497,820	$ 226,607,753	$ 261,105,573

The accompanying notes are an integral part of these financial statements

Azusa Pacific University
Consolidated Statement of Financial Position
As of June 30, 2006

	Operating	Capital	Total
Assets			
Cash and cash equivalents	$ 17,699,785	$ 11,885,879	$ 29,585,664
Investments (Note 3)	11,689,635	44,795,580	56,485,215
Accounts receivable, less allowance for doubtful accounts of $1,294,095	5,910,706	–	5,910,706
Contributions receivable, net (Note 4)	396,047	641,445	1,037,492
Inventories	1,872,658	–	1,872,658
Loans to students, less allowance for doubtful accounts of $410,000	5,092,278	–	5,092,278
Assets whose use is limited – debt service (Note 2)	–	1,609,115	1,609,115
Interest rate swap	–	1,330,039	1,330,039
Deposits and other assets	1,394,947	379,202	1,774,149
Land, buildings, and equipment, net (Note 5)	–	118,256,573	118,256,573
Due to/from	(11,173,661)	11,173,661	–
Total assets	$ 32,882,395	$ 190,071,494	$ 222,953,889
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	$ 7,736,138	$ 181,331	$ 7,917,469
Accrued interest payable	–	310,333	310,333
Deferred revenue	4,272,326	–	4,272,326
Annuities payable	–	1,567,979	1,567,979
Trust liabilities due to others (Note 2)	–	319,711	319,711
Government grants refundable	4,329,990	–	4,329,990
Notes and bonds payable (Note 6)	9,262	27,524,545	27,533,807
Conditional asset retirement obligation (Note 11)	–	1,266,084	1,266,084
Other liabilities	1,479,593	85,921	1,565,514
Total liabilities	17,827,309	31,255,904	49,083,213
Commitments and contingencies (Note 9)			
Net assets			
Unrestricted	12,851,155	128,866,809	141,717,964
Temporarily restricted (Note 8)	2,203,931	12,587,216	14,791,147
Permanently restricted (Note 8)	–	17,361,565	17,361,565
Total net assets	15,055,086	158,815,590	173,870,676
Total liabilities and net assets	$ 32,882,395	$ 190,071,494	$ 222,953,889

The accompanying notes are an integral part of these financial statements

Azusa Pacific University
Consolidated Statement of Activities
For the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support				
Tuition and fees, net of discounts of $20,399,919	$ 121,077,536	$ –	$ –	$ 121,077,536
Auxiliary enterprises	23,645,642	–	–	23,645,642
Government grants and contracts	2,400,727	37,573	–	2,438,300
Private gifts, grants and contracts	5,996,465	3,033,990	475,743	9,506,198
Pledge income	–	4,605,532	–	4,605,532
Investment income	5,280,485	99,517	21,533	5,401,535
Net unrealized gain on investments	2,765,620	77,166	–	2,842,786
Unrealized (loss) on interest rate swap	(135,698)	–	–	(135,698)
Net realized gain on sale of investments	110,677	1,936,827	1,427,470	3,474,974
Outreach ministries	1,306,851	–	–	1,306,851
Other income	3,749,583	7,438	1,914	3,758,935
Total revenue and support	166,197,888	9,798,043	1,926,660	177,922,591
Net assets released from restrictions and redesignations	1,443,528	(1,443,528)	–	–
Total revenue, support, and net assets released from restrictions	167,641,416	8,354,515	1,926,660	177,922,591
Operating expenses (Note 10)				
Instruction	58,851,297	–	–	58,851,297
Auxiliary enterprises	14,499,962	–	–	14,499,962
Academic support	11,045,192	–	–	11,045,192
Student services	19,519,036	–	–	19,519,036
Institutional support	28,363,562	–	–	28,363,562
Fund-raising	3,142,829	–	–	3,142,829
Operation and maintenance of plant	6,836,258	–	–	6,836,258
Depreciation	6,135,192	–	–	6,135,192
Accretion for asset retirement obligation	62,464	–	–	62,464
Amortization	17,236	–	–	17,236
Interest on indebtedness	2,482,693	–	–	2,482,693
Net realized loss on disposal of fixed assets	115,747	–	–	115,747
Total expenses	151,071,468	–	–	151,071,468
Change in net assets from operations	16,569,948	8,354,515	1,926,660	26,851,123
Other changes in net assets				
Change in value of split-interest agreements	(119,868)	(932,115)	143,384	(908,599)
Settlement (Note 9)	(975,840)	–	–	(975,840)
Return of endowment funds	(295,394)	–	(829,606)	(1,125,000)
Change in net assets	15,178,846	7,422,400	1,240,438	23,841,684
Net assets, beginning of year	141,717,964	14,791,147	17,361,565	173,870,676
Net assets, end of year	$ 156,896,810	$ 22,213,547	$ 18,602,003	$ 197,712,360

The accompanying notes are an integral part of these financial statements

Azusa Pacific University
Consolidated Statement of Activities
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support				
Tuition and fees, net of discounts of $17,658,774	$ 115,023,385	$ –	$ –	$ 115,023,385
Auxiliary enterprises	22,933,709	–	–	22,933,709
Government grants and contracts	2,461,740	59,876	–	2,521,616
Private gifts, grants and contracts	4,271,973	1,428,566	2,000,456	7,700,995
Pledge income	–	451,305	2,354	453,659
Investment income	3,043,622	–	20,740	3,064,362
Net unrealized gain (loss) on investments	1,120,912	(27,780)	–	1,093,132
Unrealized gain on interest rate swap	1,790,468	–	–	1,790,468
Net realized (loss) gain on sale of investments	(47,634)	(2,647)	709,500	659,219
Outreach ministries	1,395,080	–	–	1,395,080
Other income	3,800,228	6,824	1,997	3,809,049
Total revenue and support	155,793,483	1,916,144	2,735,047	160,444,674
Net assets released from restrictions and redesignations	1,793,066	(1,179,423)	(613,643)	–
Total revenue, support, and net assets released from restrictions	157,586,549	736,721	2,121,404	160,444,674
Operating expenses (Note 10)				
Instruction	54,987,823	–	–	54,987,823
Auxiliary enterprises	13,715,840	–	–	13,715,840
Academic support	9,660,567	–	–	9,660,567
Student services	18,170,706	–	–	18,170,706
Institutional support	25,092,350	–	–	25,092,350
Fund-raising	3,360,481	–	–	3,360,481
Operation and maintenance of plant	6,455,451	–	–	6,455,451
Depreciation	5,626,777	–	–	5,626,777
Accretion for asset retirement obligation	62,124	–	–	62,124
Amortization	17,236	–	–	17,236
Interest on indebtedness	1,730,570	–	–	1,730,570
Net realized loss on disposal of fixed assets	141,405	–	–	141,405
Total expenses	139,021,330	–	–	139,021,330
Change in net assets from operations	18,565,219	736,721	2,121,404	21,423,344
Other changes in net assets				
Change in value of split-interest agreements	788,700	57,414	159,426	1,005,540
Non-recurring expense				
Cumulative effect of change in accounting principle (Note 11)	(1,027,047)	–	–	(1,027,047)
Change in net assets	18,326,872	794,135	2,280,830	21,401,837
Net assets, beginning of year	123,391,092	13,997,012	15,080,735	152,468,839
Net assets, end of year	$ 141,717,964	$ 14,791,147	$ 17,361,565	$ 173,870,676

The accompanying notes are an integral part of these financial statements

Azusa Pacific University
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$ 23,841,684	$ 21,401,837
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Contributed assets	(1,669,822)	(3,053,053)
Depreciation	6,135,192	5,626,777
Loss on disposal of assets	42,146	–
Amortization	17,236	17,236
Unrealized investment gains	(2,842,786)	(1,093,132)
Gain on sale of investments	(3,474,974)	(656,696)
Change in value of interest rate swap	135,698	(1,790,468)
Bad debt reserve	33,570	–
Gifts restricted for long-term investment	(475,743)	(1,711,956)
Changes in assets and liabilities		
Accounts receivable, net	(1,396,192)	91,476
Contributions receivable, net	(4,371,352)	596,752
Inventories	(146,565)	(449,160)
Deposits and other assets	(1,123,623)	(143,510)
Accounts payable and accrued liabilities	917,478	2,030,327
Accrued interest payable	(39,824)	(55,495)
Annuities payable	283,934	(864,499)
Trust liabilities due to others	140,476	(163,497)
Deferred revenue	(887,784)	437,587
Conditional asset retirement obligations	(67,353)	1,266,084
Other liabilities	(343,914)	18,681
Net cash provided by operating activities	14,707,482	19,788,224
Cash flows from investing activities		
Purchases of investments	(19,658,419)	(11,116,628)
Proceeds from sales of investments	19,329,566	6,560,500
Expenditures for facilities	(507,503)	(7,480,236)
Net cash used in investing activities	(836,356)	(12,373,225)
Cash flows from financing activities		
Government grants refundable	91,857	261,525
Repayment on debt	(4,101,983)	(3,356,870)
Student loans		
New loans made	(1,199,279)	(1,279,556)
Principal collected	890,946	942,695
Proceeds from borrowing	9,000,000	–
Change in debt reserve funds	586,143	(13,466)
Contributions restricted for long term assets	(1,037,813)	–
Net cash provided by (used in) financing activities	6,305,497	(462,696)
Change in cash and equivalents	20,176,623	7,213,828
Cash and cash equivalents, beginning of year	29,585,664	22,371,836
Cash and cash equivalents, end of year	$ 49,762,287	$ 29,585,664
Supplemental schedule of noncash investing and financing activities		
Gifts of land, buildings and equipment	$ 599,239	$ 979,246
Gifts of investments	$ 1,070,584	$ 1,462,856
Building acquired through debt	$ 8,800,000	$ –
Acquisition of capital equipment in accounts payable	$ 517,113	$ –

1. Nature of Organization

Celebrating over 105 years of *God First* and excellence in higher education, Azusa Pacific University (the "University") is a comprehensive Christian, evangelical university, located 26 miles northeast of Los Angeles With an enrollment of more than 8,300 students, the University offers more than 50 areas of undergraduate study, over 30 master's degree programs, and 8 doctorate programs

The University is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges and is classified as a "Comprehensive University II" by the Carnegie Foundation for the Advancement of Teaching The University admits students from around the world, with the largest concentration coming from California Revenues are derived primarily from tuition and other student charges

On December 4, 1998, Azusa Pacific Foundation, Inc (the "Foundation") was formed as an auxiliary organization to the University for the purpose of supporting the University's fund-raising activities and managing funds raised During the years ended June 30, 2007 and 2006, the University did not transfer any cash to the Foundation All intercompany transactions have been eliminated during consolidation As of June 30, 2006, the University had transferred all funds from the Foundation back to the University and placed the Foundation in an inactive status pending closure of the Foundation with the California Secretary of State

2. Summary of Significant Accounting Policies

Basis of Presentation
The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the AICPA's Audit and Accounting Guide "Not-for-Profit Organizations "

The consolidated statement of financial position is presented using operating and capital designations The operating designation represents those assets and liabilities that are isolated to fund the operations of the University. Capital assets, though they may benefit operations, include endowments, fixed assets, or board-designated funds and are in effect intended for long-term use or investment

Contributions, including unconditional promises to give, are recognized as revenue in the period received

Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions Accordingly, net assets of the University and changes therein are classified and reported as follows

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the University.

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions

- Permanently restricted net assets – Net assets for which the donor has stipulated that the principal be maintained in perpetuity Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted net assets

Revenue Recognition

Student tuition and fees are recorded as revenues in the period during which the academic services are rendered Student tuition and fees received prior to when services are rendered are recorded as deferred revenues Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets

Gifts from donors are recorded as revenue in the year received Contributions receivable are reported at their discounted present value, and an allowance for amounts estimated to be uncollectible is provided

Cash and Cash Equivalents

Short-term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents Cash and cash equivalents representing permanently restricted assets are included in investments Cash and cash equivalents are reported at cost which approximates market value The University maintains cash in various financial institutions that periodically, and as of year-end, exceed federally insured limits

Investments

Marketable Securities

Investments in marketable securities, comprised of equity securities, corporate debt, and U S government obligations, are stated at fair value based on quoted market prices.

Other Investments

Investments in real estate represent land and buildings owned by the University which are presently not being used for operating purposes Such investments have been recorded at historical cost at their respective dates of acquisition or fair value at date of gift

2. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Other Investments (Continued)

Investments also include mortgages and notes receivable from faculty and staff, collateralized by deeds of trust and other collateral Such investments are recorded at cost and carry interest rates ranging from 6% to 9% Additionally, the University maintains investments in limited partnerships, the fair value of which is based on information provided by external investment managers at the most recent valuation date prior to fiscal year-end. Management monitors the activity of the external investment managers and performs reconciliations and other procedures to assure that the valuations used in the financial statements are fairly stated The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the Statements of Activities

In order to offset the effect of lower current yields for current operations, the Board of Trustees, has adopted a spending policy for pooled endowment investments whereby the amount of investment return available for current operations is determined by applying a specific percentage (5% for the years ended June 30, 2007 and June 30, 2006) to the average market value of pooled endowment investments for the three immediately preceding calendar years. If the investment income of pooled endowment investments is insufficient to provide the full amount of investment return specified, the balance may be appropriated from accumulated realized and unrealized gains of the pooled endowment investments

Contributions Receivable

Unconditional promises to give that are expected to be collected in future periods are recorded at net present value using a risk-free rate applicable to the years in which the promises were received Amortization of the discount is recorded as contribution revenue Conditional promises to give are recognized as revenue when the conditions are substantially met The discount rate used during the years ended June 30, 2007 and 2006 was 6%.

Assets Whose Use is Limited

Assets whose use is limited are comprised of bond reserve funds amounting to $1,022,972 and $1,609,115 as of June 30, 2007 and 2006, respectively Such funds are invested in U.S Treasury securities as of June 30, 2007 and 2006 and cost approximates market value

Split-Interest Agreements

The University is the charitable remainder beneficiary of 53 trusts with combined assets valued at $16,755,383 and $13,850,376 from 53 trusts as of June 30, 2007 and 2006, respectively, for which it also serves as trustee for all except two of the trusts. The current use of these assets is restricted to earn income for the individual income beneficiaries named. Upon the occurrence of certain conditions specified in the charitable remainder trust agreements, the assets will be distributed to the University for the specified purposes

2. Summary of Significant Accounting Policies (Continued)

Split-Interest Agreements (Continued)
The fair value of trust assets held for third parties has been included in investments in the University's consolidated statements of financial position Liabilities totaling $460,187 and $319,711 as of June 30, 2007 and 2006, respectively, have been recorded and classified as follows

- "Revocable trust liabilities" represent revocable living trust balances that are due to the Trustor because of their revocable nature

- "Trust liabilities due to others" represent the remainderman share of trust balances, if matured, due to third parties.

The University is licensed by the State of California Department of Insurance (the "Department") as an "Annuity Society" Under this designation, the Department requires that the University maintain a reserve adequate to meet future payments under the annuity contracts The reserve included in investments totaled $1,851,913 and $1,567,979 as of June 30, 2007 and 2006, respectively The reserve amount is based upon the most current annuity mortality table from the state of California Department of Insurance on the date of the agreement The range of annuity rates for existing agreements is 5% to 12 7%.

Inventories
Inventories, consisting primarily of textbooks and school supplies held for resale at the campus bookstore, are stated at the lower of cost or market using the first-in, first-out basis of accounting

Fixed Assets and Depreciation
Fixed assets are recorded at cost if purchased or if donated, at fair value at date of donation The University's policy is to capitalize fixed asset expenditures, equal to or in excess of $2,500, when such assets benefit multiple years. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows

Buildings and improvements	10 to 40 years
Equipment and vehicles	3 to 20 years
Library books	10 years

The University reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of the fixed assets may not be recoverable Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

2. Summary of Significant Accounting Policies (Continued)

Conditional Asset Retirement Obligations
The University has recorded conditional assets retirement obligations (Note 11) associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities When an asset retirement obligation is identified, the University records the fair value, of the obligation as a liability The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated useful life of the associated asset The fair value of the conditional asset retirement obligations were estimated using a discounted cash flow model The present value of future estimated cash flows was calculated using the credit-adjusted, risk-free rate applicable to the University in order to determine the fair value of the conditional asset retirement obligations.

Government Grants Refundable
Government grants refundable are funds provided by the federal government for the purpose of providing loans to qualified students through the Federal Perkins Loan Program.

Income Taxes
The University, as an educational organization, is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from California income taxes under Section 23701d of the California Revenue and Taxation Code.

Functional Expenses
Expenses that can be specifically identified with a specified program or supporting service are charged directly to the related program or supporting service Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management Depreciation expenses are allocated to the functional categories based upon the square foot occupancy Interest expense is allocated to the functional categories based on the purpose of the related debt Plant operations and maintenance represents space-related costs that are primarily allocated to the functional categories based on square foot occupancy

Fair Value of Financial Instruments
A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures included in these notes regarding the fair value of financial instruments have been derived using external market sources or other valuation techniques. Determination of the fair value of student notes receivable, which are primarily federally sponsored loans with U S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, and certain other notes receivable could not be made without incurring excessive costs

The estimated fair value of the University's notes and Series 2003 bonds payable approximates fair value as these instruments of financial indebtedness bear interest at variable rates which approximate current market rates for notes and bonds with similar maturities and credit quality It is not practical to estimate the fair value of the University's remaining notes and bonds payable as information regarding currently available borrowing rates to the University for loans with similar terms is not available

2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)
The University uses an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in interest expense that are caused by interest rate volatility Interest rate swaps involve the exchange of fixed- and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, all derivative instruments are recognized on the statement of financial position at their fair values and changes in fair value are recognized in the statement of activities

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Actual results could differ from those estimates.

Reclassification
Certain prior year amounts have been reclassified to conform with the current year presentation

Redesignations
Certain amounts previously received from donors have been transferred among net assets categories due to changes in donor designations

3. Investments

The carrying value of the University's investments at June 30, 2007 and 2006 are as follows

	2007	2006
Investments in marketable securities		
Corporate stocks and bonds	$ 522,623	$ 831,780
Mutual funds	30,138,692	27,437,485
Other investments		
Real estate	30,104,296	14,298,596
Mortgages, notes, and other	4,036,039	13,917,354
	$ 64,801,650	$ 56,485,215

4. Contributions Receivable

Contributions receivable are expected to be received as follows at June 30, 2007 and 2006

	2007	2006
Within one year	$ 1,310,949	$ 678,883
Within two to five years	4,160,000	513,316
	5,470,949	1,192,199
Less discount to reflect contributions receivable at present value	(459,175)	(104,707)
Less allowance for uncollectible contributions receivable	(165,000)	(50,000)
Contributions receivable, net	$ 4,846,774	$ 1,037,492

Gross pledges receivable have the following designations

	2007	2006
Plant expansion	$ 4,960,000	$ 645,179
Scholarships and programs	510,949	547,020
	$ 5,470,949	$ 1,192,199

5. Land, Buildings, and Equipment, Net

The University's land, buildings, and equipment consists of the following at June 30, 2007 and 2006

	2007	2006
Land and improvements	$ 23,867,538	$ 24,843,380
Buildings and improvements	117,872,188	111,964,161
Construction in progress	3,085,906	810,811
Equipment and vehicles	16,140,846	15,291,219
Library books	4,978,722	4,704,311
Subtotal	165,945,200	157,613,882
Less accumulated depreciation	(44,041,349)	(39,357,309)
Land, buildings, and equipment, net	$ 121,903,851	$ 118,256,573

The deprecation expense for the year ended June 30, 2007 and 2006 was $6,122,937 and $5,626,777 respectively

6. Notes and Bonds Payable

A summary of notes and bonds payable is as follows at June 30, 2007 and 2006.

	2007	2006
Notes payable		
Uncollateralized notes payable to individuals, due on demand, with interest rates ranging from 7% to 8% per annum	$ 9,262	$ 9,262
Uncollateralized subordinated loan at an interest rate of the 30 day LIBOR plus 65 basis points, with monthly payments to consist of interest only entire principle due August 2009 note payable to Allied Irish Bank	9,000,000	–
First trust deed (interest only required, payable monthly) collateralized by the Promenade Shopping Center payable to Golden Mountain Investments (prior owner of center), due July 2007, bearing interest at 6%	8,283,537	–
Note payable to The Redevelopment Agency of the City of Azusa, collateralized by a trust deed on a parcel of land, due 2010, bearing interest at 5% per annum, principal and interest payable in semiannual installments	870,025	1,132,545
Total notes payable	18,162,824	1,141,807
Bonds payable		
3% bond payable to the Department of Housing and Urban Development, collateralized by the Turner Campus Center and Adams Hall Dormitory, due 2017, interest payable semiannually and principal payable in increasing annual installments	483,000	523,000
3% bond payable to the Department of Housing and Urban Development, collateralized by Smith Hall Dormitory, due 2015, interest payable semiannually and principal payable in increasing annual installments	121,000	134,000
7.25% Series 1999 Bonds payable to US Bank, due 2009, interest payable semiannually and principal payable in increasing annual installments	7,145,000	10,065,000
Series 2003 Bonds payable to US Bank, due April 2028, bearing interest at variable rates not to exceed 12%, principal payable in installments starting in April 2006 with all unpaid principal and interest due April 2028	15,320,000	15,670,000
Total bonds payable	23,069,000	26,392,000
Total notes and bonds payable	$ 41,231,824	$ 27,533,807

6. Notes and Bonds Payable (Continued)

Year Ending June 30,	
2008	$ 12,136,609
2009	13,753,772
2010	788,443
2011	510,000
2012	536,000
Thereafter	13,507,000
Total	$ 41,231,824

In conjunction with the issuance of the Series 2003 variable rate bonds, the University also entered into an interest rate swap agreement for the full term of the Series 2003 Bonds, effectively fixing the interest rate at 5% There was no cash exchanged at the time of the acquisition due to the relationship between the variable rates and the swap rate at the time Changes in the fair market value of the interest rate swap are reported as unrealized gains or losses on interest rate hedging related to bonds in the accompanying consolidated statements of activities For the years ended June 30, 2007 and 2006, the valuation of this swap resulted in a net unrealized loss of $135,698 and gain of $1,790,468, respectively, due to lower variable interest rates at June 30, 2007 and higher rates at June 30, 2006. The offsetting asset and liability related to these gains and losses has been accrued in the accompanying consolidated statements of financial position as of June 30, 2007 and 2006.

The Series 1999 bonds contain covenants relating to maintenance of the University, compliance with specified financial ratios, insurance and other general items The University was in violation of their financial reporting covenant and as a result, on January 4, 2008, the University obtained a waiver which extended this requirement through January 2008

7. Retirement Plan

The University participates in an Internal Revenue Service Code 403(b) defined contribution retirement plan that is open to all employees who are at least 21 years of age, work a minimum of 1,000 hours per year, and have completed one year of employment at the University The plan is funded through the Teacher Insurance and Annuity Association – College Retirement Equities Fund Full vesting occurs upon the employee's initial investment. Under this plan, employees must contribute a minimum of 3% of their gross wages to participate. The University then contributes 8% of the employee's gross wages to the plan The University's contributions to the plan for the years ended June 30, 2007 and 2006 totaled approximately $3,775,200 and $3,471,600, respectively

8. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 and 2006 are available for the following purposes

	2007	2006
Gifts and grants to be used for operating purposes	$ 2,205,287	$ 2,203,930
Gifts to be used for capital purposes	20,008,260	12,587,217
	$ 22,213,547	$ 14,791,147

Permanently Restricted Net Assets

Permanently restricted net assets are restricted for investment in perpetuity and consist of the following at June 30, 2007 and 2006

	2007	2006
Endowments	$ 12,125,438	$ 11,893,889
Remainder interest trusts	6,476,565	5,467,676
	$ 18,602,003	$ 17,361,565

During the fiscal year ended June 30, 2006, a matured trust designated as permanently restricted valued at $613,643 was redesignated as unrestricted by the donor prior to the donor's passing In honoring the donor' wishes, the proceeds of the trust were placed into the University's quasi-endowment for the benefit of future University needs

9. Commitments and Contingencies

In October 2001, Mt San Jacinto Community College District ("MSJCCD") filed an eminent domain action against the University in the Superior Court for Riverside County seeking to acquire title to a 30-acre parcel of land located near the MSJCCD campus in Menifee, California. The subject parcel of real property is recorded on the financial statements with a land value of $4,170,000. The building value of $3,458,455 was written off as an impaired asset during the fiscal year ended June 30, 2004 On May 2, 2002, the Superior Court ruled that the Community College District had the right to take the subject property and set a separate jury trial to determine the compensation that the University would receive for the property On June 27, 2002, the Court ruled that the University would not be permitted to present evidence of improvements added to the property at the jury trial That decision was ultimately upheld by the California Court of Appeal. On April 23, 2004, the trial court ruled in the University's favor and determined that the proper date of valuation for the property is the date of trial On February 4, 2005, the Court of Appeal overturned the trial court's ruling on date of valuation and the University subsequently appealed the decision to the California Supreme Court. In June 2007, the court determined that the University was entitled to an award of $3,194,159 as settlement value for the land The $975,841 in excess land value was written-off during the fiscal year ended June 30, 2007. Receipt of the settlement amount was received by the University subsequent to June 30, 2007.

9. Commitments and Contingencies (Continued)

In the normal course of operations, the University is named as a defendant in suits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management of the University is of the opinion that no other liabilities, if any, arising from such litigation and examinations would have a material effect on the University's financial position

The University has operating lease commitments covering facilities and equipment. The remaining balances of these lease commitments at June 30, 2007 are summarized as follows:

Year Ending June 30,	
2008	$ 2,213,531
2009	2,256,552
2010	2,271,088
2011	2,239,565
2012	2,209,471
Thereafter	7,131,515
Total	$ 18,321,722

Rent expense for the years ended June 30, 2007 and 2006 totaled approximately $2,220,700 and $1,857,800, respectively

Certain federal grants, including financial aid which the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies Current and prior year costs of such grants are subject to adjustment upon audit The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the University expects such amounts, if any, would not have a significant impact on the financial position of the University

10. Allocation of Expenses

The University allocated depreciation, interest expense, and operation and maintenance of plant to the supporting and program services benefited for the years ended June 30, 2007 and 2006 as follows.

	Expenses, as reported	Depreciation and Amortization	Interest Expense	Operation and Maintenance of Plant	Total
2007					
Program services					
Instruction	$ 58,851,297	$ 1,443,358	$ 31,134	$ 1,763,183	$ 62,088,972
Academic support	11,045,192	754,478	31,134	1,429,100	13,259,904
Student services	19,519,035	551,321	142,961	519,673	20,732,990
Total program services	89,415,524	2,749,157	205,229	3,711,956	96,081,866
Supporting services					
Institutional support	29,488,562	1,390,774	927,326	1,811,766	33,618,428
Fund-raising	3,142,829	31,800	–	–	3,174,629
Total supporting services	32,631,391	1,422,574	927,326	1,811,766	36,793,057
Auxiliary enterprises	14,499,963	2,043,161	1,350,138	1,312,536	19,205,796
Operation and maintenance of plant	6,836,258	–	–	(6,836,258)	–
Depreciation, accretion and amortization	6,214,892	(6,214,892)	–	–	–
Loss on disposal	115,747	–	–	–	115,747
Interest on indebtedness	2,482,693	–	(2,482,693)	–	–
Total expenses	$152,196,468	$ –	$ –	$ –	$152,196,468
2006					
Program services					
Instruction	$ 54,987,823	$ 1,378,289	$ 87,605	$ 1,654,319	$ 58,108,036
Academic support	9,660,567	781,593	87,605	1,342,425	11,872,190
Student services	18,170,706	526,448	325,204	488,154	19,510,512
Total program services	82,819,096	2,686,330	500,414	3,484,898	90,561,253
Supporting services					
Institutional support	25,092,350	1,167,699	2,286	1,747,024	28,009,359
Fund-raising	3,360,481	–	–	–	3,360,481
Total supporting services	28,452,831	1,167,699	2,286	1,747,024	31,369,840
Auxiliary enterprises	13,715,840	1,852,108	1,227,870	1,223,529	18,019,347
Operation and maintenance of plant	6,455,451	–	–	(6,455,451)	–
Depreciation, accretion and amortization	5,706,137	(5,706,137)	–	–	–
Interest on indebtedness	1,730,570	–	(1,730,570)	–	–
Total expenses	$138,879,925	$ –	$ –	$ –	$138,879,925

11. Conditional Asset Retirement Obligation

In 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), which is effective for the University as of and for the year ended June 30, 2007. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No 143, "Accounting for Asset Retirement Obligations" FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation Based the guidance in FIN 47, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this Interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted The existence of asbestos is the primary condition that led to the obligation.

Upon initial application of FIN 47, the University recognized a $1,027,047 decrease in net assets as the cumulative effect of a change in accounting principle in the statement of operations and a liability for conditional asset retirement of $1,266,084 Had the provisions of FIN 47 been adopted as of July 1, 2004, the impact on net assets after non-recurring expense for the years ended June 30, 2007 and 2006 would have been a decrease of approximately $75,000 for each year.

12. Subsequent Events

The note collateralized by the University's Promenade Shopping Center purchased August 15, 2006 amounting to 8,283,537 was paid off on July 11, 2007 plus accrued interest of $13,806.

In July 2007 the University completed a non-taxable bond issuance with a face amount of $140,340,000 Proceeds were used to purchase the 320 unit Crestview Apartment Complex for $69,283,100 located adjacent to the University, pay off the Series 2003 Bond Issue remaining principal of $15,320,000 and provide funds to construct a new 70,000 square foot Science Center with a projected cost of $54,000,000 and an estimated completion date of April 2009

13. New Authoritative Pronouncement

In September 2006, the Fınancıal Accountıng Standards Board ("FASB") ıssued Statement of Fınancıal Accountıng Standard No 157, "Faır Value Measurements," ("SFAS 157") SFAS 157 defınes faır value, establıshes a framework for measurıng faır value ın accordance wıth generally accepted accountıng prıncıples, and expands dısclosures about faır value measurements SFAS 157 ıs currently effectıve for fıscal years begınnıng after November 15, 2007 The Unıversıty ıs currently evaluatıng the effect that the adoptıon of SFAS 157 wıll have on ıts fınancıal statements