

TROY UNIVERSITY FOUNDATION
COMPARATIVE CONSOLIDATED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

TROY UNIVERSITY FOUNDATION
SEPTEMBER 30, 2007 AND 2006

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Independent Auditors' Report

To the Board of Directors
Troy University Foundation
Troy, Alabama

We have audited the accompanying consolidated statements of financial position of the Troy University Foundation and subsidiary as of September 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Troy University Foundation as of September 30, 2007 and 2006, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wilson, Price, Barranco, Blankenship & Billingsley, P.C.

January 29, 2008

TROY UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 16,003,583	\$ 12,630,565
Unconditional promises to give	1,836,511	267,606
Investments	24,498,205	22,049,502
Notes receivable	168,461	193,418
Other receivables	125,218	94,249
Due from Troy University	-	135,798
Beneficial interest in trusts	1,159,406	842,242
Operating assets, net	24,874,498	6,357,570
Debt issuance costs	607,816	628,835
Program cash held as agent	1,503,310	1,743,054
TOTAL ASSETS	<u>\$ 70,777,008</u>	<u>\$ 44,942,839</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 355,042	\$ 147,714
Accrued interest payable	-	84,215
Due to Troy University	410,532	1,394,745
Gift annuity liability	83,475	332,307
Capital lease obligation	22,001,795	3,617,059
Deferred revenue	394,731	-
Funds held as agent	1,503,310	1,743,054
TOTAL LIABILITIES	<u>24,748,885</u>	<u>7,319,094</u>
NET ASSETS		
Unrestricted	11,727,957	10,047,336
Temporarily restricted	19,180,425	15,342,934
Permanently restricted	15,119,741	12,233,475
TOTAL NET ASSETS	<u>46,028,123</u>	<u>37,623,745</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 70,777,008</u>	<u>\$ 44,942,839</u>

See independent auditors' report and notes to consolidated financial statements.

TROY UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007				2006			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE								
Contributions	\$ 138,491	\$ 3,636,669	\$ 2,220,083	\$ 5,995,243	\$ 99,622	\$ 1,397,650	\$ 247,802	\$ 1,745,074
Investment income	863,982	2,929,359	-	3,793,341	793,194	1,602,037	-	2,395,231
Affinity card income	-	32,271	-	32,271	-	41,831	-	41,831
Special event revenue	3,657	826,826	-	830,483	1,220	940,508	-	941,728
Change in value of split interest agreement and perpetual trusts	-	-	18,872	18,872	-	-	11,644	11,644
Other income	1,090,137	486,631	-	1,576,768	93,526	480,404	1,220	575,150
Transfers from Troy University	-	130,306	-	130,306	1,899,753	288,671	-	2,188,424
Net assets released from restrictions:								
Satisfaction of program restrictions	3,105,238	(3,105,238)	-	-	3,427,628	(3,427,628)	-	-
TOTAL SUPPORT AND REVENUE	5,201,505	4,936,824	2,238,955	12,377,284	6,314,943	1,323,473	260,666	7,899,082
EXPENSES								
Program services:								
Athletics	821,251	-	-	821,251	701,617	-	-	701,617
Other grants and allocations	14,293	-	-	14,293	706,268	-	-	706,268
Total program services	835,544	-	-	835,544	1,407,885	-	-	1,407,885
Supporting services:								
Management and general	1,066,817	-	-	1,066,817	324,173	-	-	324,173
Fund raising	111,378	-	-	111,378	97,324	-	-	97,324
Total supporting services	1,178,195	-	-	1,178,195	421,497	-	-	421,497
Transfers to Troy University	1,959,167	-	-	1,959,167	2,096,278	-	-	2,096,278
TOTAL EXPENSES	3,972,906	-	-	3,972,906	3,925,660	-	-	3,925,660
CHANGE IN NET ASSETS	1,228,599	4,936,824	2,238,955	8,404,378	2,389,283	1,323,473	260,666	3,973,422
Transfers	452,022	(1,099,333)	647,311	-	63,530	(74,750)	11,220	-
Net assets at beginning of year	10,047,336	15,342,934	12,233,475	37,623,745	7,594,523	14,094,211	11,961,589	33,650,323
NET ASSETS AT END OF YEAR	\$ 11,727,957	\$ 19,180,425	\$ 15,119,741	\$ 46,028,123	\$ 10,047,336	\$ 15,342,934	\$ 12,233,475	\$ 37,623,745

See independent auditors' report and notes to consolidated financial statements.

TROY UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,404,378	\$ 3,973,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	162,285	23,016
Realized loss on sale of property	-	14,527
Donation of art and investments	(28,867)	-
Mutual fund and other dividends reinvested	(734,173)	(619,257)
Contributions restricted for long-term investment	(2,220,083)	(247,802)
Net realized and unrealized gains on investments	(2,367,980)	(1,490,199)
Change in value of split interest agreement and perpetual trusts	(645,335)	32,076
Changes in assets and liabilities:		
Unconditional promises to give	(1,568,905)	327,060
Other receivables	(1,462)	(4,818)
Due from Troy University	135,798	(135,798)
Accounts payable	123,113	(410,028)
Due to Troy University	(984,213)	642,493
Deferred revenue	394,731	-
Net cash provided by operating activities	<u>669,287</u>	<u>2,104,692</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase/redemption of certificates of deposit	(6,632)	11,982
Purchase of securities	(17,980,275)	(9,252,272)
Proceeds from sale of securities and real estate	18,640,357	7,764,521
Notes receivable collections	24,957	45,323
Purchase of operating assets	(244,590)	-
Leases receivable	(29,507)	14,061
Net cash provided (used) by investing activities	<u>404,310</u>	<u>(1,416,385)</u>

See independent auditors' report and notes to consolidated financial statements.

TROY UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	\$ 2,220,083	\$ 247,802
Investments subject to annuity payments	88,005	-
Gift annuity payments	<u>(8,667)</u>	<u>(90,000)</u>
Net cash provided by financing activities	<u>2,299,421</u>	<u>157,802</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,373,018	846,109
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>12,630,565</u>	<u>11,784,456</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 16,003,583</u></u>	<u><u>\$ 12,630,565</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2007</u>	<u>2006</u>
Cash paid during the year for interest	<u>\$ 172,566</u>	<u>\$ 33,141</u>

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

	<u>2007</u>	<u>2006</u>
Purchase of land	\$ -	\$ 600,000
Due to Troy University	-	(600,000)
Project costs (including capitalized interest of \$1,010,580)	18,384,736	3,070,687
Debt issue costs	-	630,587
Capital lease obligation	(18,384,736)	(3,617,059)
Accrued interest payable	<u>-</u>	<u>(84,215)</u>
Cash payment	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See independent auditors' report and notes to consolidated financial statements.

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Troy University Foundation (the Foundation) was incorporated as an Alabama nonprofit corporation on July 16, 1968, for the purpose of promoting broader educational opportunities for, and services to, the students and alumni of Troy University. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of Alabama law.

Troy University Housing, LLC is a single member LLC, owned by the Foundation, organized July 28, 2006 to engage in all activities necessary, customary, convenient or incident to buying and selling real and personal property, as well as constructing, building, managing and leasing real and personal property.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly-owned limited liability company. Intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to the following classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require the assets to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets 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 (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Management determines the allowance for uncollectible promises to give based upon historical losses and current economic conditions. On a continuing basis, management analyzes delinquent promises and, once these promises are determined to be uncollectible, they are written off through a charge against the allowance and then to the change in net assets.

Investments

The Foundation carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Real estate investments which were received by gift are carried at fair value (at the date of the gift). Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Other investments are carried at cost. Income from pooled investments is allocated quarterly in proportion to the balance of accounts with funds invested in the investment pool.

Beneficial Interest in Trusts

The Foundation follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. Under SFAS No. 136, the Foundation is required to recognize its right to financial and non-financial assets held by the recipient organization (trustee) as a beneficial interest. The beneficial interest is measured at the fair value of the underlying trust assets since the Foundation has an unconditional right to receive all or a portion of the cash flows from a charitable trust or other asset pool.

Operating Assets

Operating assets, consisting of real estate, educational facilities and vehicles, are recorded at cost if purchased and fair value at the date of the gift if donated. Depreciation is provided on the straight-line basis over the estimated useful lives of assets as follows:

Building and improvements	40 years
Furniture, fixtures, equipment and vehicles	5 years

The cost and accumulated depreciation of assets sold or retired are removed from their respective accounts. Any gain or loss resulting from the disposal of operating assets is recorded in the current period. Depreciation expense for the years ended September 30, 2007 and 2006, totaled \$141,265 and \$21,264, respectively.

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs are deferred and amortized on the straight-line basis over the life of the related debt.

Donated Services, Supplies and Equipment

Donated services and supplies are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. For the year ended September 30, 2007, donated services and supplies were recorded for the following activities:

Other grants and allocations	\$	58,984
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Donated property and equipment is recorded as support at its estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2007 and 2006 was \$9,715 and \$43,795, respectively.

Unrelated Business Income Tax

Unrelated business income tax is imposed on not-for-profit organizations who conduct certain activities unrelated to their exempt purpose. At times, the Foundation receives royalty and other income that may be taxable. However, no unrelated business income tax liability existed as of September 30, 2007 and 2006.

Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
<i>Program Services</i>		
Scholarships	\$ 4,463,649	\$ 3,816,748
Professorships	2,448,013	1,741,941
Athletics	1,855,387	1,136,423
Other grants and allocations	<u>10,413,376</u>	<u>8,647,822</u>
	<u>\$ 19,180,425</u>	<u>\$ 15,342,934</u>

3. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are available for investment in perpetuity, the income from which is expendable to support the following:

	<u>2007</u>	<u>2006</u>
<i>Program Services</i>		
Scholarships	\$ 7,734,052	\$ 5,637,217
Professorships	5,700,115	5,699,615
Other grants and allocations	<u>1,685,574</u>	<u>896,643</u>
	<u>\$ 15,119,741</u>	<u>\$ 12,233,475</u>

4. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors as follows:

	<u>2007</u>	<u>2006</u>
<i>Program Services</i>		
Athletics	\$ 821,251	\$ 689,300
Other grants and allocations	7,797	619,298
<i>Supporting Services</i>	333,747	199,864
<i>Transfers to Troy University</i>		
Scholarships	393,686	495,962
Professorships	221,081	258,055
Athletics	886,945	851,157
Other grants and allocations	4,605	49,203
Supporting services	<u>436,126</u>	<u>264,789</u>
	<u>\$ 3,105,238</u>	<u>\$ 3,427,628</u>

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

5. PROMISES TO GIVE

Unconditional promises to give as of September 30, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Receivable in less than one year	\$ 612,902	\$ 596,073
Receivable in one to five years	<u>1,407,595</u>	<u>150,657</u>
Total unconditional promises to give	2,020,497	746,730
Less discounts to net present value	167,892	53,585
Less allowance for uncollectible promises	<u>16,094</u>	<u>425,539</u>
Net unconditional promises to give	<u>\$ 1,836,511</u>	<u>\$ 267,606</u>

A risk-free discount rate was used to calculate present values of future cash flows.

6. INVESTMENTS

The Foundation's investments as of September 30, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Common and preferred stocks	\$ 107,688	\$ 116,279
Government bonds	73,949	69,593
Mutual funds	<u>23,855,679</u>	<u>21,345,341</u>
Securities at fair value	24,037,316	21,531,213
Partnership interest (20%) – equity method	1,741	65,773
Real estate – acreage and residential lots in Alabama and Florida	195,098	195,098
Certificates of deposit	<u>264,050</u>	<u>257,418</u>
	<u>\$ 24,498,205</u>	<u>\$ 22,049,502</u>

The components of investment income and expenses for the years ended September 30, 2007 and 2006, are reflected in the following schedule.

	<u>2007</u>	<u>2006</u>
Net realized gains from the sale of securities	\$ 205,668	\$ 384,902
Net unrealized appreciation in value of securities	2,162,311	1,105,298
Interest and dividends	<u>1,425,362</u>	<u>905,031</u>
Investment income	<u>\$ 3,793,341</u>	<u>\$ 2,395,231</u>

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

6. INVESTMENTS (Continued)

Separate investment accounts are maintained for all endowments with donor or grantor prohibitions against pooling. Other endowments are maintained in pooled accounts for general permanent endowments. Separate investment accounts are also maintained for certain restricted accounts with significant net assets available for investment. As of September 30, 2007, one investment company holds approximately 93% of the Foundation's investments.

The Foundation owns a 20% interest in a Limited Liability Company known as Troy Hotels, LLC. The investment is accounted for using the equity method. The underlying property owned by the LLC was sold in August 2006 with the majority of the net proceeds being distributed to the owners at that time.

7. NOTES RECEIVABLE

Notes receivable as of September 30, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Troy University (Atlantic Region), bearing interest at 9%, receivable in annual installments of \$14,847, maturing August 2007, unsecured	\$ 13,621	\$ 13,621
Troy University (Sigma Chi), bearing interest at 7.5%, receivable in monthly installments of \$1,888, maturing May 2010, secured by property	60,802	77,971
Troy University (Lambdi Chi), bearing interest at 7.5%, receivable in monthly installments of \$1,276, maturing July 2015, secured by property	93,923	101,216
Miscellaneous	<u>115</u>	<u>610</u>
	<u>\$ 168,461</u>	<u>\$ 193,418</u>

TROY UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

8. LEASES RECEIVABLE

The Foundation's leasing activities consist of direct financing leases receivable from Troy University for various vehicles. The vehicles are in use by administrative personnel. All taxes, licenses, insurance and other executory costs are paid by the lessee. The Foundation retains title to the vehicles upon expiration of the lease. Leases receivable are included in other receivables on the statements of financial position.

The components of the net investment in direct financing leases as of September 30, 2007 and 2006, are reflected in the following schedule:

	<u>2007</u>	<u>2006</u>
Total minimum lease payments to be received	\$ 112,208	\$ 70,843
Estimated residual values of leased property (unguaranteed)	31,126	31,126
Unearned income	<u>(40,480)</u>	<u>(28,773)</u>
Net investment in leases	<u>\$ 102,854</u>	<u>\$ 73,196</u>

Minimum lease rentals to be received under direct financing leases as of September 30, 2007, for each of the next five years are as follows:

2008	\$ 37,543
2009	37,543
2010	23,074
2011	3,807
2012	3,807

9. BENEFICIAL INTEREST IN TRUSTS

The Foundation is named as the specified beneficiary in several charitable trusts where the trustee of the charitable trust has not been granted variance power. Consequently, the Foundation has recognized its unconditional right to receive all or a portion of the specified cash flows from these charitable trusts. These beneficial interests are valued using fresh start accounting and totaled \$1,159,406 and \$842,242 as of September 30, 2007 and 2006, respectively.