

BRADLEY UNIVERSITY
Peoria, Illinois

FINANCIAL STATEMENTS
May 31, 2008 and 2007



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

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BRADLEY UNIVERSITY

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Independent Auditor's Report

Board of Trustees
Bradley University
Peoria, Illinois

We have audited the accompanying statements of financial position of Bradley University as of May 31, 2008 and 2007, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Bradley University as of May 31, 2008 and 2007, 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.

As discussed in Note 1 to the financial statements under New Accounting Standard, the University changed the manner in which it accounts for its postretirement benefits other than pensions.

Clifton Gunderson LLP

Peoria, Illinois
September 25, 2008

BRADLEY UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
May 31, 2008 and 2007
(In Thousands of Dollars)

ASSETS	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 17,901	\$ 11,641
Deposit with trustee, Series 2008, 2007 and 2002 bonds (Note 7)	50,944	74,004
Accounts receivable:		
Tuition and fees, net of \$180 and \$150 allowance in 2008 and 2007, respectively	1,139	638
Government grants and appropriations	545	537
Other	1,558	1,221
Student loans, net of \$350 allowance in 2008 and 2007	5,647	5,635
Deferred charges and other	3,327	3,142
Annuities receivable	832	701
Contributions receivable, net of \$2,370 and \$695 allowance in 2008 and 2007, respectively (Note 2)	22,678	13,195
Swap contract (Note 8)	-	554
Investments (Note 3)	254,369	256,969
Property, plant, and equipment, net (Note 4)	<u>208,571</u>	<u>173,196</u>
 TOTAL ASSETS	 <u>\$ 567,511</u>	 <u>\$ 541,433</u>

LIABILITIES AND NET ASSETS

Accrued wages and related taxes	\$ 8,772	\$ 9,039
Accounts payable and accrued expenses	15,048	5,399
Student deposits	1,570	1,446
Deferred revenue	1,811	1,759
Reserve for annuities (Note 6)	5,228	5,154
Refundable government loan fund	4,171	4,242
Postretirement benefits other than pensions (Note 12)	15,311	19,258
Notes payable	2,054	1,938
Swap contract (Note 8)	1,129	-
Bonds payable, net (Note 7)	<u>126,282</u>	<u>126,725</u>
Total liabilities	<u>181,376</u>	<u>174,960</u>

NET ASSETS

Unrestricted	294,761	293,258
Temporarily restricted (Note 9)	41,529	28,279
Permanently restricted (Note 9)	<u>49,845</u>	<u>44,936</u>
Total net assets	<u>386,135</u>	<u>366,473</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 567,511</u>	<u>\$ 541,433</u>
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The accompanying notes are an integral part of the financial statements.

BRADLEY UNIVERSITY
STATEMENTS OF ACTIVITIES
Years Ended May 31, 2008 and 2007
(In Thousands of Dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2008</u>	<u>2007</u>
OPERATING REVENUES AND OTHER ADDITIONS					
Tuition and fees	\$ 118,061	\$ -	\$ -	\$ 118,061	\$ 112,300
Tuition allowance	(35,971)	-	-	(35,971)	(33,790)
Contributions	3,666	18,636	4,965	27,267	18,264
Government grants and appropriations	3,948	-	-	3,948	4,191
Contracts	1,584	-	-	1,584	1,704
Investment return designated for current operations (Note 3)	14,912	(141)	237	15,008	11,389
Auxiliary	21,991	-	-	21,991	21,589
Other income	6,512	-	3	6,515	5,402
Net assets released from restrictions (Note 9)	7,478	(7,478)	-	-	-
Total operating revenue and other additions	<u>142,181</u>	<u>11,017</u>	<u>5,205</u>	<u>158,403</u>	<u>141,049</u>
OPERATING EXPENDITURES					
Instructional and research	47,035	-	-	47,035	44,977
Operation and maintenance of plant	8,641	-	-	8,641	8,234
General institutional	17,937	-	-	17,937	15,386
Student services	7,034	-	-	7,034	6,607
General administrative	5,753	-	-	5,753	5,089
Library	2,702	-	-	2,702	2,576
Public service, information, and fundraising	3,826	-	-	3,826	3,159
Auxiliary	20,132	-	-	20,132	18,652
Interest on indebtedness	4,832	-	-	4,832	3,658
Depreciation	7,824	-	-	7,824	7,720
Total operating expenditures	<u>125,716</u>	<u>-</u>	<u>-</u>	<u>125,716</u>	<u>116,058</u>
Change in net assets from operating activities	<u>16,465</u>	<u>11,017</u>	<u>5,205</u>	<u>32,687</u>	<u>24,991</u>
NONOPERATING REVENUE AND EXPENDITURES					
Net appreciation (depreciation) on investments (Note 3)	(12,017)	(28)	(224)	(12,269)	31,404
Swap contract loss (Note 8)	(1,903)	-	-	(1,903)	(529)
Realized loss on disposal of property	(876)	-	-	(876)	(372)
Loss on early extinguishment of debt	(1,395)	-	-	(1,395)	(2,759)
Change in donor restrictions	(2,601)	2,483	118	-	-
Changes in split interest arrangements	(113)	(222)	(190)	(525)	3,407
Change in net assets from nonoperating activities	<u>(18,905)</u>	<u>2,233</u>	<u>(296)</u>	<u>(16,968)</u>	<u>31,151</u>
Changes in net assets before effect of adoption of FASB Statement No. 158	(2,440)	13,250	4,909	15,719	56,142
EFFECT OF ADOPTION OF RECOGNITION PROVISIONS OF FASB STATEMENT NO. 158 (NOTE 12)	<u>3,943</u>	<u>-</u>	<u>-</u>	<u>3,943</u>	<u>-</u>
TOTAL CHANGES IN NET ASSETS	1,503	13,250	4,909	19,662	56,142
NET ASSETS AT BEGINNING OF YEAR	<u>293,258</u>	<u>28,279</u>	<u>44,936</u>	<u>366,473</u>	<u>310,331</u>
NET ASSETS AT END OF YEAR	<u>\$ 294,761</u>	<u>\$ 41,529</u>	<u>\$ 49,845</u>	<u>\$ 386,135</u>	<u>\$ 366,473</u>

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

BRADLEY UNIVERSITY
STATEMENTS OF ACTIVITIES
Years Ended May 31, 2008 and 2007
(In Thousands of Dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2007</u>
OPERATING REVENUES AND OTHER ADDITIONS				
Tuition and fees	\$ 112,300	\$ -	\$ -	\$ 112,300
Tuition allowance	(33,790)	-	-	(33,790)
Contributions	3,739	12,220	2,305	18,264
Government grants and appropriations	4,191	-	-	4,191
Contracts	1,704	-	-	1,704
Investment return designated for current operations (Note 3)	10,936	31	422	11,389
Auxiliary	21,589	-	-	21,589
Other income	5,399	-	3	5,402
Net assets released from restrictions (Note 9)	<u>3,434</u>	<u>(3,434)</u>	<u>-</u>	<u>-</u>
Total operating revenue and other additions	<u>129,502</u>	<u>8,817</u>	<u>2,730</u>	<u>141,049</u>
OPERATING EXPENDITURES				
Instructional and research	44,977	-	-	44,977
Operation and maintenance of plant	8,234	-	-	8,234
General institutional	15,386	-	-	15,386
Student services	6,607	-	-	6,607
General administrative	5,089	-	-	5,089
Library	2,576	-	-	2,576
Public service, information, and fundraising	3,159	-	-	3,159
Auxiliary	18,652	-	-	18,652
Interest on indebtedness	3,658	-	-	3,658
Depreciation	<u>7,720</u>	<u>-</u>	<u>-</u>	<u>7,720</u>
Total operating expenditures	<u>116,058</u>	<u>-</u>	<u>-</u>	<u>116,058</u>
Change in net assets from operating activities	<u>13,444</u>	<u>8,817</u>	<u>2,730</u>	<u>24,991</u>
NONOPERATING REVENUE AND EXPENDITURES				
Net appreciation (depreciation) on investments (Note 3)	31,150	285	(31)	31,404
Swap contract loss (Note 8)	(529)	-	-	(529)
Realized loss on disposal of property	(372)	-	-	(372)
Loss on early extinguishment of debt	(2,759)	-	-	(2,759)
Change in donor restrictions	(669)	462	207	-
Changes in split interest arrangements	<u>(71)</u>	<u>3,923</u>	<u>(445)</u>	<u>3,407</u>
Change in net assets from nonoperating activities	<u>26,750</u>	<u>4,670</u>	<u>(269)</u>	<u>31,151</u>
TOTAL CHANGES IN NET ASSETS	40,194	13,487	2,461	56,142
NET ASSETS AT BEGINNING OF YEAR	<u>253,064</u>	<u>14,792</u>	<u>42,475</u>	<u>310,331</u>
NET ASSETS AT END OF YEAR	<u>\$ 293,258</u>	<u>\$ 28,279</u>	<u>\$ 44,936</u>	<u>\$ 366,473</u>

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

BRADLEY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended May 31, 2008 and 2007
(In Thousands of Dollars)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 19,662	\$ 56,142
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Effect of adoption of recognition provisions of FASB Statement No. 158	(3,943)	-
Depreciation	7,824	7,720
Provision for uncollectible contributions receivable	1,675	165
Net (accretion) amortization of premiums and discounts on bonds payable and bond issuance costs	(22)	96
Net realized and unrealized (gains) losses on investments	4,516	(38,933)
Loss on extinguishment of debt	1,395	2,759
Realized loss on disposal of property	876	372
Effects of changes in operating assets and liabilities:		
Accounts receivable	(846)	572
Deferred charges and other	(1,095)	1,345
Annuities receivable	(131)	(23)
Contributions receivable	(11,158)	(8,067)
Accounts payable, accrued expenses, and accrued wages	9,382	(155)
Student deposits	124	(54)
Deferred revenue	52	(340)
Reserve for annuities	74	107
Postretirement benefits	(4)	(53)
Swap contract loss	1,903	529
Contributions restricted for long-term investment	(4,835)	(2,051)
Interest and dividends restricted for long-term investment	(279)	(394)
Net cash provided by operating activities	<u>25,170</u>	<u>19,737</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	4,031	24,185
Purchase of investments	(5,947)	(23,831)
Purchase of property and equipment	(44,075)	(17,995)
Withdrawal of deposit with trustee	32,556	7,502
Deposit with trustee	(72,296)	(81,024)
Swap contract liability	(220)	32
Net cash used in investing activities	<u>(85,951)</u>	<u>(91,131)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	4,835	2,051
Interest and dividends restricted for long-term investment	279	394
Proceeds from issuance of notes payable	350	504
Payments on notes payable	(234)	(218)
Payments on bonds payable	(1,305)	(2,475)
Increase (decrease) in refundable government loan funds, net	(83)	419
Proceeds from issuance of bonds payable	63,775	84,003
Bond discounts purchased	(159)	
Bond issuance costs	(417)	(1,833)
Payments to trustee to defease Series 1999 debt	-	(7,379)
Net cash provided by financing activities	<u>67,041</u>	<u>75,466</u>

BRADLEY UNIVERSITY
STATEMENTS OF CASH FLOWS
Years Ended May 31, 2008 and 2007
(In Thousands of Dollars)

	<u>2008</u>	<u>2007</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 6,260	\$ 4,072
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,641</u>	<u>7,569</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 17,901</u>	<u>\$ 11,641</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest of \$676 during the year ended May 31, 2008	<u>\$ 4,797</u>	<u>\$ 3,861</u>

NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended May 31, 2008, the University had the following noncash activities relating to the refunding of the Series 2002 and the Series 2007B Bonds:

The balance of bonds outstanding and deposit with trustee in the amount of \$62,800 was transferred to the trustee and removed from the statement of financial position.

Unamortized bond issuance costs of \$1,202 were removed from the statement of financial position.

Unamortized bond discounts of \$193 were removed from the statement of financial position.

During the year ended May 31, 2007, the University had the following noncash activities relating to the defeasance of the Series 1999 Bonds:

The balance of bonds outstanding of \$32,275 was transferred to the trustee and removed from the statement of financial position.

Unamortized bond issuance costs of \$693 were removed from the statement of financial position.

Unamortized bond discounts of \$486 were removed from the statement of financial position.

Interest payable of \$433 was removed from the statement of financial position.

Interest receivable of \$215 was removed from the statement of financial position.

Deposits with the trustee of \$26,694 were removed from the statement of financial position.

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

BRADLEY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
May 31, 2008 and 2007
(In Thousands of Dollars Unless Otherwise Indicated)

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Bradley University (the "University") provides educational opportunities to qualified students from throughout the world.

Basis of Presentation

The University prepares its financial statements in accordance with Statement of Financial Accounting Standards No. 117 (SFAS 117), *Financial Statements of Not-for-Profit Organizations*. SFAS 117 requires classification of net assets and revenues, expenses, gains, and losses based on the absence or existence of donor-imposed restrictions into three categories: unrestricted net assets which have no donor-imposed restrictions and are available for any purpose consistent with the University's mission; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future and normally fund specific expenditures of an operating or capital nature, such as life income funds, student loan funds, and pledges; and permanently restricted net assets which have donor-imposed restrictions that do not expire and are normally restricted to long-term investment with income earned and appreciation available for specific or general University purposes, such as life income funds, endowment funds, and pledges.

The University's financial statements are prepared on the accrual basis of accounting.

Cash and Cash Equivalents

The University defines cash equivalents as securities with original maturities of 90 days or less.

Endowment

The University has adopted an endowment spending policy that attempts to meet three objectives: (1) provide a predictable, stable stream of earnings to fund participants; (2) ensure the purchasing power of this revenue stream does not decline over time; and (3) ensure the purchasing power of the endowment assets do not decline over time. Under this policy, as approved by the Board of Trustees, investment income, as well as a prudent portion of realized and unrealized gains, may be expended for the operational needs of fund participants.

Revenue Recognition

Revenues from tuition and fees are reported in the fiscal year in which educational programs are conducted. Summer session tuition and fees billed in the current fiscal year for future years' programs are reported as deferred revenue and/or student deposits.

BRADLEY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
May 31, 2008 and 2007
(In Thousands of Dollars Unless Otherwise Indicated)

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Auxiliary Enterprises

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty, and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of dining halls, residence halls, and intercollegiate athletics. Auxiliary enterprise revenues and fully costed expenses are reported as changes in unrestricted net assets.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are presented at fair value. Investments in farms are stated at appraised value while other real estate investments are stated at acquisition cost or, for gifts, at fair value on the date of receipt. The net realized and unrealized appreciation or depreciation in the fair value of investments is reflected in the statements of activities.

Endowment funds are accounted for with a unitized accounting system. Individual funds within the investment pool are assigned units based on their proportionate share of the investments in the pool. Additions and subtractions are assigned units based on the unit value at the time of the additions or subtractions. Net appreciation on endowment funds is reported as unrestricted net assets unless such net appreciation has been permanently restricted by the donor or by law. Accordingly, market appreciation on endowment funds and all other funds is classified in the accompanying financial statements based on such restrictions.

An individual endowment fund is considered to be underwater if the fund is permanently restricted and the fair value has decreased below its historic dollar value. There are no individual endowment funds that are considered to be "underwater." Spending associated with endowment funds is governed by the Uniform Management of Institutional Funds Act (UMIFA) and places stipulations upon spending from underwater endowment funds. The University accounts for underwater endowment funds in accordance with Statement of Financial Accounting Standards No. 124 (SFAS 124), *Accounting for Certain Investments Held by Not-for-Profit Organizations*.

Purchases and sales of investment securities are recorded on the trade-date basis. Dividends are recorded on the ex-dividend date and interest is recorded as earned.

BRADLEY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
May 31, 2008 and 2007
(In Thousands of Dollars Unless Otherwise Indicated)

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Bond Issuance Costs

Bond issuance costs of \$1,733 and \$2,643 are included in deferred charges on the statements of financial position at May 31, 2008 and 2007, respectively. During the years ended May 31, 2008 and 2007, the University incurred \$417 and \$1,833, respectively, of bond issuance costs. These deferred charges are being amortized using both the straight-line and interest methods over the term of the related debt. At May 31, 2008 and 2007, accumulated amortization on the bond issuance costs was \$404 and \$321, respectively.

Property, Plant, and Equipment

Land, buildings, and equipment are stated at acquisition cost less accumulated depreciation. Donations of property are recorded at fair market value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of each asset type.

Impairment of Long-Lived Assets

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Fair Value of Financial Instruments

The reported fair values of investments, excluding farms and other real estate, and the swap contract are based on quoted market prices for identical or comparable instruments. The fair value of farms and other real estate is based upon appraised values. Accordingly, the fair values may not represent actual values that could have been realized at year end or that will be realized in the future. Fair values of the University's financial instruments approximate their carrying value in the accompanying financial statements.

Income Taxes

The University is exempt from federal and state income taxes under the applicable U.S. and Illinois internal revenue codes and, accordingly, no provision for such taxes has been made.

BRADLEY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
May 31, 2008 and 2007
(In Thousands of Dollars Unless Otherwise Indicated)

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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

At May 31, 2008 and 2007, reserves have been established for uncollectible accounts, student loans, and contributions receivable. These reserves have been estimated based on historical collection and allowance practices, as well as an evaluation by management of current trends.

Contributions receivable, annuities receivable, and the reserve for annuities are based on estimated fair values using discount rates. The University believes the methods and assumptions used are appropriate.

The liability for postretirement/employment benefits is based on actuarial studies. The University believes the methods and assumptions used in computing this liability are appropriate.

Change in Donor Restrictions

A donor may change their imposed restrictions subsequent to the initial contribution. When such a change occurs, the net asset balance of the contribution is reclassified to reflect the current status of the restriction, if any.

New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the statements of financial position. Under SFAS 158, gains and losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of the fiscal year in which SFAS 158 is initially applied are included in the ending balance of unrestricted net assets. Any required adjustment is reported in the statements of activities, in a separate line item or items within changes in unrestricted net assets, apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

BRADLEY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
May 31, 2008 and 2007
(In Thousands of Dollars Unless Otherwise Indicated)

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

New Accounting Standards (Continued)

Also, in September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The University is currently evaluating the impact the adoption of SFAS 157 will have on the University's financial statements.

NOTE 2 - CONTRIBUTIONS

The University accounts for contributions in accordance with Statement of Financial Accounting Standards No. 116 (SFAS 116), *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS 116, unconditional contributions receivable, less an appropriate reserve, are recorded at their estimated fair value with amounts due later than one year recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates (120 percent of the mid-term Applicable Federal Rate) applicable to the years in which the promises are received. The University utilized a discount rate of 3.25 percent in 2008 and 5.44 percent in 2007 to arrive at this present value. The expiration of a donor-imposed restriction on a contribution or endowment is recognized in the period in which the restriction expires, and the related resources are reclassified to unrestricted net assets at that time. Conditional promises to give are not included as contributions until the conditions are substantially met.

Unconditional contributions receivable at May 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Contributions due in:		
Less than one year	\$ 8,025	\$ 4,307
One year to five years	17,388	9,677
Six years or greater	1,405	1,570
Less discount to present value and allowance	<u>(4,140)</u>	<u>(2,359)</u>
Total	<u>\$ 22,678</u>	<u>\$ 13,195</u>

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NOTE 2 - CONTRIBUTIONS (CONTINUED)

Contributions receivable are distributed between net asset classifications as follows at May 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Temporarily restricted	\$ 22,033	\$ 12,685
Permanently restricted	<u>645</u>	<u>510</u>
Total	<u>\$ 22,678</u>	<u>\$ 13,195</u>

NOTE 3 - INVESTMENTS

A summary of the cost and fair values of investments at May 31, 2008 and 2007 follows:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term funds held for investment	\$ 6,675	\$ 6,675	\$ 7,227	\$ 7,227
Equities and equity mutual funds	171,323	179,454	166,057	187,112
Fixed income assets	56,320	60,881	52,088	56,480
Mortgages and notes	626	626	644	644
Real estate and farms	1,526	4,847	1,526	3,871
Other	<u>1,935</u>	<u>1,886</u>	<u>1,690</u>	<u>1,635</u>
	<u>\$ 238,405</u>	<u>\$ 254,369</u>	<u>\$ 229,232</u>	<u>\$ 256,969</u>

Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect the amounts reported in the statements of financial position and the statements of activities. The timing of the reallocation of investments as of May 31, 2008 and 2007 caused \$6,675 and \$7,227, respectively, to be held in short-term funds held for investment.

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NOTE 3 - INVESTMENTS (CONTINUED)

Investment return for the years ended May 31, 2008 and 2007 is comprised of the following:

	<u>2008</u>	<u>2007</u>
Investment income	\$ 7,255	\$ 3,860
Net realized and unrealized gains (losses) on investments reported at fair value	<u>(4,516)</u>	<u>38,933</u>
Total return on investments	2,739	42,793
Investment return designated for current operations	<u>(15,008)</u>	<u>(11,389)</u>
Investment return in excess (deficiency) of amount designated for current operations	<u>\$ (12,269)</u>	<u>\$ 31,404</u>

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT, NET

	Depreciable <u>Life</u>	<u>May 31,</u>	
		<u>2008</u>	<u>2007</u>
Educational plant:			
Land		\$ 22,736	\$ 19,158
Buildings	20-60	120,878	121,333
Equipment	3-10	62,579	60,666
Improvement other than buildings	20	11,015	8,799
Construction in progress		38,713	5,860
Accumulated depreciation		<u>(91,577)</u>	<u>(86,733)</u>
		<u>164,344</u>	<u>129,083</u>
Residential halls:			
Buildings	20-60	51,793	47,995
Equipment	3-10	1,436	4,297
Construction in progress		708	555
Accumulated depreciation		<u>(14,836)</u>	<u>(16,540)</u>
		<u>39,101</u>	<u>36,307</u>

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NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT, NET (CONTINUED)

	Depreciable <u>Life</u>	<u>May 31,</u>	
		<u>2008</u>	<u>2007</u>
Construction in progress		\$ -	\$ 2,250
Fraternity and sorority housing	20-60	4,891	1,515
Rental property	20-30	1,416	5,354
Accumulated depreciation		<u>(1,181)</u>	<u>(1,313)</u>
		<u>5,126</u>	<u>7,806</u>
		<u>\$ 208,571</u>	<u>\$ 173,196</u>

NOTE 5 - LINE OF CREDIT ARRANGEMENTS

The University has formal line of credit arrangements that permit borrowing up to \$5,000 on an unsecured basis at the LIBOR rate plus 125 basis points. The arrangements require maintenance of compensating balances aggregating \$250. The University had no borrowings under these arrangements as of May 31, 2008 and 2007.

NOTE 6 - RESERVE FOR ANNUITIES

Several donors have entered into split-interest agreements with the University. These agreements are in the form of charitable gift annuities, charitable remainder annuity trusts, charitable remainder unitrusts, and life income funds. The assets held in the trusts, which approximate \$8,376 and \$8,794 at May 31, 2008 and 2007, respectively, are reported at fair value as investments in the statements of financial position. The annuities payable to beneficiaries resulting from these agreements are reported as a liability at the present value of the estimated future payments to be distributed over the beneficiaries' lives. The University calculates the present value of these payments through the use of discount rates (risk-free interest rates, which are 120 percent of the mid-term Applicable Federal Rate) and mortality tables (IRS Publication 590 expectancy tables). The University utilized discount rates based upon the applicable year in which the split-interest agreements were initiated within these calculations. For agreements initiated in the years ended May 31, 2008 and 2007, the University used discount rates based upon industry standards as established by the American Council on Gift Annuities. During the years ended May 31, 2008 and 2007, the University used discount rates ranging from 5 to 6.9 percent and 6.1 to 10.2 percent, respectively.

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NOTE 7 - BONDS PAYABLE, NET

The University's bonds payable consist of the following at May 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Bonds payable:		
Series 1993B Revenue Refunding Bonds, 4.3 to 5.25 percent, due May 1, 2012 (A)	\$ 2,360	\$ 2,880
Series 1996 Revenue Bonds, 3.97 percent, due November 1, 2011 (B) (F)	1,520	1,910
Series 2002 Variable Rate Demand Revenue Bonds, due February 1, 2030 and February 1, 2033 (C) (F)	-	38,195
Series 2007A Revenue Bonds, 4.0 to 5.0 percent, due August 1, 2034 (D)	56,100	56,100
Series 2007B Variable Rate Demand Revenue Bonds, due August 1, 2034 through August 1, 2037 (D)	-	25,000
Series 2008A, Variable Rate Demand Revenue Refunding Bonds, due April 1, 2033 (E)	38,385	-
Series 2008B, Variable Rate Demand Revenue Refunding Bonds, due April 1, 2038 (E)	<u>25,390</u>	<u>-</u>
	123,755	124,085
Less bonds discounts	(189)	(237)
Plus bond premium	<u>2,716</u>	<u>2,877</u>
	<u>\$ 126,282</u>	<u>\$ 126,725</u>

BRADLEY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - BONDS PAYABLE, NET (CONTINUED)

- (A) Pursuant to a Security Agreement and Pledge dated December 1, 1993, the University issued its Secured Note Series 1993B in the principal amount of \$6,600 to provide funds to retire at a future date all of the Illinois Educational Facilities Authority's (the "IEFA") outstanding Variable Rate Revenue Bonds, Series 1991. The IEFA purchased the Note through the sale of revenue refunding bonds. The agreement provided for annual principal payments ranging in varying amounts from \$345 in 1999 to \$635 in 2012 and interest payments are semi-annual. Interest rates are variable on \$3,225 of the bonds ranging from 4.3 percent in 1999 to 5.0 percent in 2006. The balance of \$2,360 is 5.25 percent Term Bonds due May 1, 2012.
- (B) Pursuant to a Security Agreement dated December 1, 1996 between the University and the County of Peoria, Illinois, the University issued its Secured Note Series 1996 in the principal amount of \$5,000 to finance the construction of a parking garage. The County purchased the Note through the sale of revenue bonds issued under and secured by the Trust Indenture dated December 1, 1996 between the County and National City Bank, the trustee. The agreement provides for semi-annual principal payments ranging in the amount of \$115 in 1997 to \$230 in 2011.
- (C) Pursuant to a Security Agreement dated December 1, 2002 between the University and the Illinois Development Finance Authority (the "IDFA"), the University issued a Secured Note, Series 2002 in the principal amount of \$39,850 to (1) finance (a) renovating Bradley Hall academic building and (b) constructing and equipping an addition to the University's existing student recreational facility, (2) refund certain maturities of the IDFA's Revenue Bonds Series 1999, and (3) to finance a portion of the costs of issuing the Series 2002 Bonds. The IDFA purchased the Note through the sale of revenue bonds, which were issued pursuant to a Trust Indenture dated December 1, 2002 between the IDFA and National City Bank of Michigan/Illinois. The agreement requires annual principal payments ranging in amounts from \$200 to \$2,835 through 2033. The Note will bear interest at a Weekly Rate as determined by National City Investments, Inc., as Remarketing Agent, with interest payments due monthly. Previously, \$27,175 Series 2002 principal was on deposit in escrow for the University to refund certain maturities of the Authority's Revenue Bonds Series 1999. The bond agreement requires a bond insurance policy. However, the First Amendment to the Escrow Agreement dated April 1, 2007 between the Illinois Finance Authority and U.S. Bank National Association, as Escrow Agent, established an irrevocable trust for the purpose of satisfying scheduled principal and interest payments for the Series 1999 Bonds. The deposit of these funds in the irrevocable trust is considered to be a legal extinguishment of debt and, accordingly, the outstanding principal is no longer included in the University's statement of financial position as of May 31, 2007.

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NOTE 7 - BONDS PAYABLE, NET (CONTINUED)

The Series 2002 Bonds which were outstanding in the aggregate principal amount of \$37,800 were redeemed on March 25, 2008 with proceeds from the Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds Series 2008A.

- (D) Pursuant to a Trust Indenture dated April 1, 2007 between the University and the Illinois Finance Authority (the "Authority"), the University issued a Promissory Note, Series 2007 in the principal amount of \$81,100, issued under and secured by the Loan Agreement to (1) finance a portion of the costs of the acquisition, construction, renovation, improving, and equipping of certain facilities, (2) refund certain bonds heretofore issued by the Authority for the benefit of the Borrower, and (3) pay certain of the costs relating to the issuance of the Series 2007 Bonds. The Authority issued bonds in two series known as the "Illinois Finance Authority Revenue Bonds (Bradley University Projects) Series 2007A" (the "Series 2007A Bonds") and the "Illinois Finance Authority Variable Rate Demand Revenue Bonds (Bradley University Projects) Series 2007B" (the "Series 2007B Bonds" and with the Series 2007A Bonds, the "Bonds"). A premium of \$2,903 was received upon issuance of the Series 2007 Bonds. The agreement requires annual principal payments ranging in amounts from \$650 to \$6,090 through 2034 for the Series 2007A Bonds. The Series 2007B Bonds which were outstanding in the aggregate principal amount of \$25,000 were redeemed on March 25, 2008 with proceeds from the Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds Series 2008B. As of May 31, 2008, \$34,327 Series 2007A principal is on deposit with the trustee for the University to draw down as construction progresses. The Bond Agreement requires a bond insurance policy.
- (E) Pursuant to Trust Indentures dated March 1, 2008 between the University and the Illinois Finance Authority (the "Authority"), the University issued Promissory Notes, which collectively comprised the Series 2008 Bonds. The Authority issued two series known as the "Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds (Bradley University) Series 2008A" ("the Series 2008A Bonds") in the principal amount of \$38,385 maturing on April 1, 2033 and the "Illinois Finance Authority Variable Rate Demand Revenue Refunding Bonds (Bradley University) Series 2008B" ("the Series 2008B Bonds") in the principal amount of \$25,390 maturing April 1, 2038.

The Series 2008A Bonds proceeds were used by the University to refund all Illinois Development Finance Authority Variable Rate Demand Revenue Bonds (Bradley University Projects) Series 2002 with an outstanding principal amount of \$37,800 and paid certain expenses incurred in connection with the issuance of the Series 2008A Bonds and the refunding of the Refunded Bonds.

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NOTE 7 - BONDS PAYABLE, NET (CONTINUED)

The Series 2008B Bonds proceeds were used by the University to refund all Illinois Finance Authority Variable Rate Demand Revenue Bonds (Bradley University Projects) Series 2007B with an outstanding principal amount of \$25,000 and paid certain expenses incurred in connection with the issuance of the Series 2008B Bonds and the refunding of the Refunded Bonds. As of May 31, 2008, \$16,571 Series 2008B principal is on deposit with the trustee for the University to draw down as construction progresses.

The Series 2008A Bonds are secured with an irrevocable letter of credit in an amount sufficient to pay the principal or purchase price of the Series 2008A Bonds plus an amount up to 34 days of interest on the Series 2008A Bonds computed at an assumed maximum rate of 10 percent per annum and expiring on April 9, 2009 unless extended or terminated.

The Series 2008B Bonds are secured with an irrevocable letter of credit in an amount sufficient to pay the principal or purchase price of the Series 2008B Bonds plus an amount up to 184 days of interest on the Series 2008B Bonds computed at an assumed maximum rate of 4 percent per annum and expiring on April 9, 2009 unless extended or terminated.

- (F) As of June 30, 2004, US Bank acquired the corporate trust bond administration business of National City Bank. US Bank has assumed the duties of National City Bank regarding the University's 1996 and 2002 bond issues.

Scheduled principal payments on bonds payable are:

2009	\$ 2,050
2010	2,140
2011	2,010
2012	1,860
2013	2,440
2014 and after	<u>113,255</u>
	<u>\$ 123,755</u>

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NOTE 8 - INTEREST RATE SWAP AGREEMENT

The University entered into an interest rate swap agreement with Morgan Stanley Capital Services, Inc. (MSCS) in conjunction with the Series 2002 bond issuance, which was transferred to the Series 2008A Bonds upon the refunding of the Series 2002 Bonds. The swap agreement exchanges the variable rate interest for a fixed rate of 3.48 percent until maturity on February 1, 2033. A floating rate is determined monthly to calculate settlement payments between the University and MSCS. MSCS determines the floating rate monthly based on sixty-seven percent (67%) of the 30-day LIBOR Index. The present value of the swap is recorded as an asset or a liability based on its valuation as of May 31. The gain (loss) includes the settlement payments made to MSCS.

NOTE 9 - NET ASSETS

Permanently restricted net assets consist of the following as of May 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Investment in perpetuity, income available to support:		
Scholarships	\$ 34,366	\$ 30,776
Annuity	2,373	2,281
Research, academic support, student services, and institutional support	12,956	11,729
Property and equipment acquisition and maintenance	<u>150</u>	<u>150</u>
	<u>\$ 49,845</u>	<u>\$ 44,936</u>

Temporarily restricted net assets are available for the following purposes as of May 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Scholarships	\$ 556	\$ 1,950
Annuity, life income, and similar funds	2,422	2,372
Research, academic support, student services, and institutional support	31,633	18,516
Property and equipment acquisition and maintenance	<u>6,918</u>	<u>5,441</u>
	<u>\$ 41,529</u>	<u>\$ 28,279</u>

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NOTE 9 - NET ASSETS (CONTINUED)

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors for the years ended May 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Scholarships	\$ 1,394	\$ 241
Instruction, research, academic, and institutional support	4,061	3,193
Property and equipment acquisition and maintenance	<u>2,023</u>	<u>-</u>
	<u>\$ 7,478</u>	<u>\$ 3,434</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

All funds expended in conjunction with government grants and contracts are subject to audit by government agencies. In the opinion of management, any liability resulting from these audits will not have a material effect on the University's financial position.

On March 23, 2004, Bradley University entered into an agreement with a lender to guarantee borrowings of a local organization of up to \$1 million in revolving credit. This agreement allows the organization the credit to obtain start-up capital for property acquisition which awaits development. If the organization were to default on the line of credit, the University would be subject to the terms and conditions of the agreement.

The University has entered into various contracts related to construction, design services, and improvements of facilities on campus for the Markin Student Center, Athletic Performance Arena, parking deck, infrastructure, and residential facilities for approximately \$95,902. As of May 31, 2008, the remaining balances on these contracts totaled \$65,805.

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NOTE 11 - RETIREMENT PLAN

Retirement benefits are available to all full-time employees of the University through Teachers Insurance and Annuity Association - College Retirement Equity Fund (TIAA-CREF), a national organization which funds pension benefits for educational institutions. Under this fully vested plan, the University and plan participants make monthly contributions to TIAA-CREF to purchase individual annuities equivalent to accrued retirement benefits. The University's cost of these benefits was \$2,001 and \$1,959 in 2008 and 2007, respectively.

NOTE 12 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Through the University's self-insured health plan, certain benefits (other than pension benefits) are offered and provided to eligible employees and dependents after retirement. The University uses a May 31 measurement date for this plan. The components of the University's liability for postretirement benefits (other than pensions) are as follows:

	<u>Fiscal Year Ended</u>	
	<u>May 31, 2008</u>	<u>May 31, 2007</u>
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at the beginning of the year	\$ 13,481	\$ 12,537
Service cost	901	808
Interest cost	828	731
Actuarial (gain) or loss	552	(285)
Benefits paid	(831)	(671)
Medicare Part D reimbursement	111	101
Plan participants' contributions	<u>269</u>	<u>260</u>
 Accumulated postretirement benefit obligation at the end of the year	 <u>\$ 15,311</u>	 <u>\$ 13,481</u>
 Change in plan assets:		
Fair value of plan assets at the beginning of the year	\$ -	\$ -
Benefits paid	(831)	(671)
Employer contributions	562	411
Plan participants' contributions	<u>269</u>	<u>260</u>
 Fair value of assets at the end of the year	 <u>\$ -</u>	 <u>\$ -</u>

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NOTE 12 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

	<u>Fiscal Year Ended</u>	
	<u>May 31, 2008</u>	<u>May 31, 2007</u>
Funded status	\$ 15,311	\$ 13,481
Postretirement benefits other than pensions included in liabilities	<u>\$ 15,311</u>	<u>\$ 19,258</u>
Assumptions used to determine benefit obligation:		
Discount rate	6.00%	6.25%
Rate of compensation increase	N/A	N/A
Assumed healthcare cost trend rates for benefit obligation:		
Healthcare cost trend rate assumed for next year:		
Pre-65 trend rate	9.50%	11.00%
Post-65 trend rate	8.00%	9.00%
Ultimate rate	5.50%	5.50%
Year that the ultimate rate is reached:		
Pre-65 trend rate	2016	2013
Post-65 trend rate	2013	2011
Components of net periodic benefit cost:		
Service cost	\$ 901	\$ 808
Interest cost	828	731
Amortization of net (gain) loss	-	-
Amortization of prior service cost (credit)	<u>(1,282)</u>	<u>(1,282)</u>
Net periodic benefit cost	<u>\$ 447</u>	<u>\$ 257</u>
Assumptions used to determine net periodic benefit cost:		
Discount rate	6.25%	6.00%
Rate of compensation increase	N/A	N/A

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NOTE 12 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

	<u>Fiscal Year Ended</u>	
	<u>May 31, 2008</u>	<u>May 31, 2007</u>
Assumed healthcare cost trend rates for net periodic benefit cost:		
Healthcare cost trend rate assumed for next year:		
Pre-65 trend rate	11.00%	12.00%
Post-65 trend rate	9.00%	10.00%
Ultimate rate	5.50%	5.50%
Year that the ultimate rate is reached:		
Pre-65 trend rate	2013	2013
Post-65 trend rate	2011	2011

Expected contributions for fiscal year 2009 are as follows:

Expected employer contributions	\$ 838
Expected employee contributions	269

Estimated future benefit payments for postretirement benefits other than pensions are as follows:

	<u>Gross</u> <u>Payments</u>	<u>Subsidy</u> <u>Amount</u>
Fiscal 2009	\$ 838	\$ 115
Fiscal 2010	934	118
Fiscal 2011	1,024	122
Fiscal 2012	1,087	125
Fiscal 2013	1,140	129
Fiscal 2014-2018	6,133	664

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NOTE 12 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

For measurement purposes, the following percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008:

<u>Year</u>	<u>Under 65</u>	<u>65 and Up</u>
2009	9.50	8.00
2010	9.00	7.50
2011	8.50	7.00
2012	8.00	6.50
2013	7.50	6.00
2014	7.00	5.50
2015	6.50	5.50
2016	6.00	5.50
2016+	5.50	5.50

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care benefits. A one-percentage point change in assumed health care cost trend rates would have the following effect:

	1 Percentage Point <u>Increase</u>	1 Percentage Point <u>Decrease</u>
Effect on total of service and interest cost components for fiscal year ended May 31, 2008	\$ <u>285</u>	\$ <u>(239)</u>
Effect on postretirement benefits obligation as of May 31, 2008	\$ <u>1,437</u>	\$ <u>(1,237)</u>

The University adopted SFAS 158 on the required effective date by adjusting unrestricted net assets as of May 31, 2008. The effects of such are as follows:

	<u>Before Application of SFAS 158</u>	<u>Adjustments</u>	<u>After Application of SFAS 158</u>
Postretirement benefits other than pensions included in liabilities	\$(19,254)	\$ 3,943	\$(15,311)
Unrestricted net assets	-	(3,943)	(3,943)

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NOTE 12 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The amounts in unrestricted net assets at May 31, 2008 that have not been recognized as components of net periodic benefit cost are as follows:

Prior service credit	\$ (3,446)
Net gain	<u>(497)</u>
	<u>\$ (3,943)</u>

The amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost in the next fiscal year are as follows:

Prior service credit	\$ 1,282
Net gain	<u>-</u>
	<u>\$ 1,282</u>

NOTE 13 - ALLOCATION OF EXPENSES

The University excludes operation and maintenance of plant, interest on indebtedness, depreciation, and general institutional expenditures from functional expense categories in the statements of activities for the fiscal years ended May 31, 2008 and 2007. Those expenses would be distributed to the individual functional areas of the University as follows:

	2008				
	Operations and Maintenance	Interest on Indebtedness	Depreciation	General Institutional	Total
Instructional	\$ 4,700	\$ 2,628	\$ 4,256	\$ 9,755	\$ 21,339
Student services	703	393	636	1,459	3,191
General administrative	575	321	520	1,193	2,609
Library	270	151	244	560	1,225
Public service	382	214	346	794	1,736
Auxiliary	<u>2,011</u>	<u>1,125</u>	<u>1,822</u>	<u>4,176</u>	<u>9,134</u>
	<u>\$ 8,641</u>	<u>\$ 4,832</u>	<u>\$ 7,824</u>	<u>\$ 17,937</u>	<u>\$ 39,234</u>

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NOTE 13 - ALLOCATION OF EXPENSES (CONTINUED)

	2007				
	Operations and <u>Maintenance</u>	Interest on <u>Indebtedness</u>	<u>Depreciation</u>	General <u>Institutional</u>	<u>Total</u>
Instructional	\$ 4,568	\$ 2,020	\$ 4,284	\$ 8,537	\$ 19,409
Student services	671	300	629	1,254	2,854
General administrative	517	231	485	966	2,199
Library	262	117	245	489	1,113
Public service	321	143	301	600	1,365
Auxiliary	<u>1,895</u>	<u>847</u>	<u>1,776</u>	<u>3,540</u>	<u>8,058</u>
	<u>\$ 8,234</u>	<u>\$ 3,658</u>	<u>\$ 7,720</u>	<u>\$ 15,386</u>	<u>\$ 34,998</u>

This information is an integral part of the accompanying financial statements.