FISK UNIVERSITY

FINANCIAL STATEMENTS

JUNE 30, 2008

FISK UNIVERSITY

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CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Members of the Audit Committee
Fisk University Board of Trustees
Nashville, Tennessee

We have audited the accompanying balance sheet of Fisk University (the "University") as of June 30, 2008, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fisk University as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note J to the financial statements, the University sought a declaratory ruling that it has the legal authority to sell certain art of significant value. The art is included in investments in art collections in the financial statements. The Georgia O'Keeffe Museum intervened in this matter, and obtained a decision from the Davidson County Chancery Court preventing the University from selling any or all of the art in its Alfred Stieglitz Collection. The University will appeal that decision, and has not exhausted its legal remedies. The University is of the opinion that it has the legal authority to sell the art without the approval of any person or entity. The University also believes that the claims of the Georgia O'Keeffe Museum are without merit and intends to vigorously defend its position throughout the appellate process. Since the ultimate outcome of this litigation cannot presently be determined, no adjustments, if any, that may result from the resolution of this matter have been made in the financial statements.

Crosslin & Associates, P.C.

October 14, 2008
Nashville, Tennessee

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FISK UNIVERSITY
BALANCE SHEET
JUNE 30, 2008
(with comparative totals for 2007)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted
Cash, cash equivalents and restricted cash	$ 3,680,358	$ 601,052	$ 202,500
Accounts and contributions receivable, less allowance for doubtful accounts and discount	2,965,367	1,482,297	501,578
Notes receivable, less allowance for doubtful accounts	275,560	-	-
Prepaid expenses and other assets	575,780	-	-
Investments in marketable securities	1,139,413	1,108,856	4,929,119
Investments in art collections	62,102,717	-	6,098,778
Real estate held for investment	123,350	-	-
Property and equipment, at cost, net of accumulated depreciation	27,237,130	-	-
Total assets	$98,099,675	$3,192,205	$11,731,975

LIABILITIES

	Unrestricted	Temporarily Restricted	Permanently Restricted
Accounts payable and accrued expenses	$ 3,807,034	$ -	$ -
Deposits	56,765	-	-
Deferred revenue	1,538,724	-	-
Capital lease obligations	265,121	-	-
Bank lines-of-credit and note payable	4,528,047	-	-
Bonds payable	9,294,519	-	-
Advances from Federal government for Perkins loan programs	329,686	-	-
Total liabilities	19,819,896	-	-

NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted
Unrestricted	78,279,779	-	-
Temporarily restricted	-	3,192,205	-
Permanently restricted	-	-	11,731,975
Total net assets	78,279,779	3,192,205	11,731,975
Total liabilities and net assets	$98,099,675	$3,192,205	$11,731,975

Total	
2008	2007
$ 4,483,910	$ 2,529,836
4,949,242	4,311,550
275,560	193,017
575,780	666,242
7,177,388	7,381,807
68,201,495	68,201,495
123,350	123,350
27,237,130	28,546,091
$113,023,855	$111,953,388
$ 3,807,034	$ 4,486,779
56,765	130,118
1,538,724	1,608,493
265,121	53,561
4,528,047	4,868,591
9,294,519	9,544,519
329,686	338,472
19,819,896	21,030,533
78,279,779	75,118,745
3,192,205	5,504,016
11,731,975	10,300,094
93,203,959	90,922,855
$113,023,855	$111,953,388

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(with comparative totals for 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenues, gains, and other support			
Tuition and fees	$ 12,024,224	$ -	$ -
Less: scholarships and fellowships	(4,341,707)	-	-
Net tuition and fees	7,682,517	-	-
Government grants	7,492,839	-	-
Private gifts and grants	7,133,655	978,065	1,431,881
Sales and services of auxiliary enterprises	3,884,024	-	-
Income on investments	181,828	230,506	-
Net (losses) gains on investments	(264,665)	(354,807)	-
Other income	742,099	-	-
	26,852,297	853,764	1,431,881
Net assets released from restrictions	3,165,575	(3,165,575)	-
Total revenues, gains, and other support	30,017,872	(2,311,811)	1,431,881
Expenses			
Instruction	6,700,631	-	-
Research	4,474,084	-	-
Academic support	3,551,251	-	-
Student services	2,808,011	-	-
Institutional support	7,506,771	-	-
Auxiliary enterprises	1,816,090	-	-
Total expenses	26,856,838	-	-
INCREASE (DECREASE) IN NET ASSETS	3,161,034	(2,311,811)	1,431,881
NET ASSETS, at beginning of year	75,118,745	5,504,016	10,300,094
NET ASSETS, at end of year	$ 78,279,779	$ 3,192,205	$11,731,975

Total	
2008	2007
$ 12,024,224	$ 12,637,394
(4,341,707)	(5,576,066)
7,682,517	7,061,328
7,492,839	7,963,265
9,543,601	3,241,243
3,884,024	4,667,802
412,334	298,477
(619,472)	27,721,188
742,099	551,762
29,137,942	51,505,065
-	-
29,137,942	51,505,065
6,700,631	7,308,045
4,474,084	4,060,388
3,551,251	3,487,895
2,808,011	3,232,308
7,506,771	7,776,510
1,816,090	1,807,422
26,856,838	27,672,568
2,281,104	23,832,497
90,922,855	67,090,358
$ 93,203,959	$ 90,922,855

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(with comparative totals for 2007)

	2008	2007
Cash flows from operating activities:		
Increase in net assets	$ 2,281,104	$ 23,832,497
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	2,859,948	2,806,239
Amortization expense	18,691	18,691
Losses (gains) on investments	619,472	(27,721,188)
Bad debt expense	436,700	63,786
Endowed gifts reclassified to financing activities	(930,303)	(190,010)
(Increase) decrease in accounts and contributions receivable	(1,074,392)	332,743
(Increase) decrease in notes receivable	(82,543)	234,594
Decrease (increase) in prepaid expenses	71,771	(266,885)
(Decrease) increase in accounts payable, accrued expenses and deferred revenue	(749,514)	44,155
Decrease in deposits	(73,353)	(1,247)
Net cash provided by (used in) operating activities	3,377,581	(846,625)
Cash flows from investing activities:		
Net decrease (increase) in investments	(415,053)	1,887,551
Purchase of property and equipment	(1,297,725)	(1,755,104)
Increase in advances from Federal government	(8,786)	24,988
Net cash (used in) provided by investing activities	(1,721,564)	157,435
Cash flows from financing activities:		
Endowed gifts reclassified from operating activities	930,303	190,010
Proceeds from notes payable and lines-of-credit	-	2,720,000
Principal repayment of capital lease obligation	(41,702)	(18,813)
Principal repayment of bonds and notes payable	(590,544)	(340,802)
Net cash provided by financing activities	298,057	2,550,395
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,954,074	1,861,205
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	2,529,836	668,631
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of year	$ 4,483,910	$ 2,529,836
Supplemental disclosure and non-cash investing activities:		
Cash paid for interest	$ 842,211	$ 818,929

During fiscal 2008, the University acquired equipment through a capital lease totaling $253,262.

See accompanying notes to financial statements.

A. DESCRIPTION OF THE ORGANIZATION

Fisk University (the "University") is a private, not-for-profit, liberal arts institution of higher education affiliated with the United Church of Christ through the American Missionary Association. Founded in 1866, the University offers undergraduate and graduate degrees.

The University is accredited by the Southern Association of Colleges and Schools and is a member of the United Negro College Fund.

The University derives a major source of its revenues from the Federal government and the United Negro College Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The financial statements of the University have been prepared using the accrual basis of accounting.

Basis of Presentation

The University classifies its revenues, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the 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.
>
> 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.
>
> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the University maintain them permanently. 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.

The amount for each of these classes of net assets is presented in the balance sheet and the amount of change in each class of net assets is displayed in the statement of activities.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

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 investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Income realized and unrealized net gains or losses on investments of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift, or the University's interpretation of relevant state law requires that they be added to the principal of a permanent endowment fund;

- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; and

- As increases in unrestricted net assets in all other cases.

Contributions

The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The University reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long the long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contribution of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

In the event a donor makes changes to the nature of a restricted gift, which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Comparative Financial Statements

The summarized financial information shown for fiscal 2007 in the accompanying balance sheet and statement of activities and cash flows is included to provide a basis for comparison with fiscal year 2008.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation is exercised by management in certain areas of the preparation of financial statements. The more significant areas include the recovery period for buildings and equipment, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable, and the allowance for doubtful receivables. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Cash, Cash Equivalents and Restricted Cash

For purposes of the statement of cash flows, the University's cash and cash equivalents include interest-bearing money market accounts and all highly liquid debt instruments with a maturity of less than three months at the date of purchase. Included in the cash balances at June 30, 2008 and 2007, are the following groups of cash and cash equivalents:

	2008	2007
Bond reserves held by trustee - restricted cash	$1,190,822	$1,024,333
Cash from Federal Perkins loan program	205,130	291,657
Other restricted cash	803,552	888,384
Other operating cash	2,284,406	325,462
Total cash and cash equivalents	$4,483,910	$2,529,836

The University maintains cash balances in financial institutions that it considers to be high quality financial institutions.

Fair Value of Financial Instruments

The carrying amount of cash, certificates of deposit, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these financial instruments. The carrying value of investments in marketable securities is based upon values provided by external investment managers or quoted market values.

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at variable rates, which approximate current market rates for notes with similar maturities and credit quality.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investments in art are stated at the most recently available independently appraised values and fair values based upon an agreement to sell certain art which was executed September 24, 2007 (Notes D and J). All gains and losses arising from the sale, collection or other disposition of investments and ordinary income derived from investments are accounted for in the net assets group owning such assets, except for income derived from investments of permanently restricted endowment and similar funds. That income is accounted for as temporarily restricted net assets if restricted, or if unrestricted as unrestricted net assets.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost in the accompanying balance sheet or if contributed, at estimated fair value at the time of contribution. It is the University's policy to capitalize expenditures for these items in excess of $5,000.

Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Improvements	15-25 years
Library holdings	10 years
Equipment	3-10 years

Allowance for Doubtful Accounts

Accounts, contributions, and notes receivable are reported net of allowances for doubtful accounts and include receivables from students for tuition and fees and loans extended under the Federal Perkins Loan Program. The determination of the allowances for doubtful accounts is based upon an analysis of the receivables and reflects amounts, which in management's judgment, are adequate to provide for potential uncollectible accounts or losses after giving consideration to the growth and composition of the receivable balances, current economic conditions, and past collection and loss experience. The following allowances are recorded in the accompanying balance sheets:

	2008	2007
Student accounts and government receivables	$2,098,958	$1,730,633
Federal Perkins and institutional notes receivable	$1,363,680	$1,363,680

Bond Issuance Costs

The University amortizes deferred bond issuance costs of $376,371 over the twenty-year life of the related bonds using the interest method. The unamortized balances were $209,265 and $227,956 at June 30, 2008 and 2007, respectively, which are included in prepaid expenses and other assets. The total amortization expense was $18,691 for each of the years ended June 30, 2008 and 2007.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS - Continued

Deferred Revenue

Deferred revenue consists of cash receipts collected or billed prior to year-end, for services rendered after year-end. These receipts primarily pertain to upcoming semester fees and unearned grant revenue.

Income Taxes

The University is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements. The University is not classified as a private foundation.

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable June 30, 2008 and 2007, (included in accounts and contributions receivable) consisted of the following:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	$ 813,685	$ 178,787
One year to five years	1,138,121	856,080
More than five years	1,192,826	1,145,470
	3,144,632	2,180,337
Less allowance for uncollectible pledges and unamortized discount at 3.2%	(594,326)	(694,257)
	$ 2,550,306	$ 1,486,080

D. INVESTMENTS

At June 30, 2008 and 2007, investments, stated at market value, are comprised of the following significant classifications:

	2008	2007
Certificates of deposit and money market funds	$ 805,153	$ 247,409
Corporate stocks	703,457	897,469
Mutual bond and corporate stock funds	5,668,778	6,236,929
	$7,177,388	$7,381,807

At June 30, 2008 and 2007, the University had funds held in trust amounting to $1,295,612 and $1,514,987, respectively. These funds are held by various financial institutions for the benefit of the University and have been included in investments.

The return (investment income, gains and losses) on investments in marketable securities was (2.8)% and 16.1% based on the average market value of such investments for fiscal years 2008 and 2007, respectively.

The University's collections of art held for investment are stated at the most recently available independently appraised values and the fair values based upon an agreement to sell certain art, executed on September 24, 2007. As a result of the execution of the sale agreement and the appraisals, the University recorded an increase in fair value of $26,755,120 as unrealized appreciation on the art held for investment for the year ended June 30, 2007. This increase has been included in net gains in investments in the statement of activities. Investment in art collections totaled $68,201,495 at June 30, 2008 and 2007 (See Note J). The market for art is highly volatile and it is possible that appraised values could change materially. The collection consists of paintings, photographs, sculptures and various other pieces.

E. PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property and equipment at June 30, 2008 and 2007 are as follows:

	2008	2007
Land and improvements	$ 1,084,190	$ 929,438
Buildings	46,690,335	46,529,724
Equipment and furniture	22,232,583	21,041,034
Library books	1,865,519	1,844,506
Construction in progress	260,043	236,981
	72,132,670	70,581,683
Less: Accumulated depreciation	(44,895,540)	(42,035,592)
Property and equipment, net	$ 27,237,130	$ 28,546,091

Depreciation expense totaled $2,859,948 and $2,806,239 for the years ended June 30, 2008 and 2007, respectively.

F. BANK LINES-OF-CREDIT AND NOTES PAYABLE

The University has a $1,550,000 line-of-credit with a commercial bank, collateralized by real estate and equipment, bearing interest at the prime rate (5.00% at June 30, 2008) payable monthly and maturing December 31, 2008. The outstanding balance was $1,542,936 at June 30, 2008 and 2007.

The University has a $300,000 line-of-credit with a commercial bank, collateralized by investments, bearing interest at the prime rate (5.0% at June 30, 2008) payable monthly. The line-of-credit matures June 20, 2009. The outstanding balance was $225,000 at June 30, 2007. The line-of-credit was repaid during fiscal 2008, and there was no outstanding balance at June 30, 2008.

At June 30, 2008 and 2007, the University had a note payable to an investment manager with an outstanding balance of $453,515, collateralized by certain investments. The note payable bears interest at .75% over the prime rate (5.75% at June 30, 2008) accruing monthly.

At June 30, 2008 and 2007, the University had a note payable to a financial institution with an outstanding balance of $20,645 and $26,800, respectively, collateralized by a vehicle. The note is due in monthly principal and interest payments of $684 through May 2011.

F. BANK LINES-OF-CREDIT AND NOTES PAYABLE - Continued

The University also has a note payable with a financial institution due in monthly payments of principal and interest of $25,168 through August 2021. The note payable bears interest at 7.47% and is collateralized by real estate. The outstanding balance was $2,510,951 and $2,620,340 at June 30, 2008 and 2007.

The maturities of bank lines-of-credit and notes payable are as follows:

Year Ending June 30	Amount
2009	$2,120,986
2010	134,237
2011	144,696
2012	150,355
2013	159,080
Thereafter	1,818,693
	$4,528,047

G. BONDS PAYABLE

Bonds payable at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Revenue bonds, Series 1998, bearing interest at a rate of 5.99%, paying interest semi-annually and maturing in varying annual principal installments through 2018.	$3,965,000	$4,215,000
Revenue bonds, Series 2000, bearing a variable interest rate, initially at 6% and currently at 3.6% and paying interest semi-annually and maturing in varying annual principal installments through 2020.	5,329,519	5,329,519
	$9,294,519	$9,544,519

G. BONDS PAYABLE - Continued

The maturities of bonds payable are as follows:

Year Ending, June 30	
2009	$ 265,000
2010	280,000
2011	300,000
2012	315,000
2013	335,000
Thereafter	7,799,519
	$9,294,519

1998 Bond Issue

The Series 1998 Revenue bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The proceeds were loaned to the University and used for construction and renovation of certain buildings of the University. Certain revenues, equipment, land, buildings and improvements of the University collateralize the 1998 bonds. The University is required to make monthly principal and interest payments to the trustee equal to one-sixth of the next semi-annual principal and interest payment. At June 30, 2008 and 2007, $926,874 and $889,338, respectively, were held by the bond trustee for the aforementioned payment, and were classified as cash and cash equivalents in the accompanying balance sheet. The loan agreement contains various covenants. The University was in compliance with the covenants related to the 1998 bond issue.

2000 Bond Issue

The Series 2000 Revenue bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The proceeds were loaned to the University and used for construction and renovation of certain buildings of the University. The 2000 bonds are collateralized by a pledge of the University's revenues and certain land, buildings and improvements of the University. Monthly principal and interest payments are to be made to the bond trustee. At June 30, 2008 and 2007, the trustee held $263,948 and $134,995, respectively, as repayment for the bond obligations. The above funds are classified as cash and cash equivalents in the accompanying balance sheet. The loan agreement contains various covenants. The University was in compliance with the covenants related to the 2000 bond issue.

H. CAPITAL LEASE OBLIGATIONS

At June 30, 2008 and 2007, the University had capital lease obligations as follows:

	2008	2007
8.46% capital lease obligation for copier equipment, principal and interest due in monthly installments of $125 through December 20, 2009	$ 2,106	$ 3,369
8.46% capital lease obligation for copier equipment, principal and interest due in monthly installments of $1,603 through November 15, 2009	25,595	41,907
13.20% capital lease obligation for dish washing equipment, principal and interest due in monthly installments of $329 through August 9, 2009	5,252	8,285
9.22% capital lease obligation for telephone equipment, principal and interest due in monthly installments of $5,501 through August 19, 2012.	232,168	-
	$265,121	$53,561

Minimum lease payments on capital lease obligations at June 30, 2008, are as follows:

Year Ending June 30,	
2009	$ 90,696
2010	76,606
2011	66,012
2012	66,012
2013	17,278
	316,604
Amount representing interest	(51,483)
	$ 265,121

I. PENSION PLAN

The University sponsors a defined contribution plan for all full-time eligible employees. Participants may contribute up to 5% of their annual earnings and the University matches the contributions. The University contributed $220,381 and $207,387 to the plan for the years ended June 30, 2008 and 2007, respectively.

J. COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2006, the University began to explore the sale of two paintings included in a certain collection in its art held for investment. The two paintings were given to the University as a gift subject to various conditions and requests. The University presumed that any potential purchaser would require representations and warranties with respect to the art. While the University opines that it has the legal authority to sell the paintings as there is no express contractual provision stating that the University is prohibited from selling the paintings, it decided to obtain a ruling from the Chancery Court of Davidson County, Tennessee (the “Davidson County Chancery Court” or the “Chancery Court”), stating that the University has an unfettered right to sell the paintings notwithstanding the requests and various conditions imposed on the art by the donor. It is the University’s position that such a ruling would enhance the value of the art. To obtain such a ruling, the University filed a Complaint for Declaratory Judgment in December 2005. The lawsuit sought a declaratory ruling from the Chancery Court stating that the University has the legal authority to sell the art. A foundation unrelated to the University intervened in the lawsuit and sought to prevent the sale of the art. The Georgia O’Keeffe Museum (the “Museum”) is now the substituted party for that foundation. The University and its legal counsel assert that the University has the absolute legal authority to sell some or all of the art without the approval of any person or entity. The University also believes that the claims of the Georgia O’Keeffe Museum are wholly unmerited.

The Georgia O’Keeffe Museum obtained a ruling from the Davidson County Chancery Court to enjoin the University from selling any piece or all of the artwork.

On September 24, 2007, the University entered into an agreement to sell a 50% undivided interest in certain art, including the paintings discussed above, for $30 million. The University also entered into a joint ownership agreement with the purchaser, setting forth the terms and conditions of the parties’ mutual ownership and the care and display of the art. The obligations between the parties under the agreements are subject to the entry of a final, non-appealable order of the Davidson County Chancery Court approving the agreements and lifting the injunction imposed upon the University pursuant to the Chancery Court’s June 12, 2007 Order.

On September 28, 2007, Fisk filed a motion requesting the Chancery Court’s permission to file an Amended Petition seeking to alter the conditions on the collection and requesting the Chancery Court’s approval of the Purchase and Sale Agreement, the Joint Ownership Agreement and the Pledge Agreement. The Chancery Court subsequently granted Fisk’s motion to file an amended compliant. In response to the complaint, the Museum once again filed a counterclaim alleging that Fisk had taken certain actions which constituted a breach of the conditions imposed by O’Keeffe on Fisk’s ownership of the collection, and it requested that the Chancery Court order the entire collection to revert to the Museum.

J. COMMITMENTS AND CONTINGENCIES - Continued

The Museum subsequently filed a motion for summary judgment on the issue of whether or not Fisk could demonstrate, as a matter of law, certain required conditions which must be met in order to qualify the agreement with the purchaser for the Chancery Court's consideration. The Chancery Court subsequently granted the motion filed by the Museum, effectively terminating the efforts of Fisk to have the purchase agreement approved.

With the grant of the Museum's motion for summary judgment, a trial was held on whether or not Fisk had violated the conditions imposed by Georgia O'Keeffe on the Stieglitz Collection, and whether or not the Museum was entitled to have the entire Collection revert to the Museum.

After the trial, the Chancery Court found that Fisk had violated the conditions by effectively confirming that it did not have sufficient funds to continue to care for the artwork. The Chancery Court found further, however, that reversion of the artwork to the Museum would not be the appropriate remedy.

Both Fisk and the Museum have filed an appeal of the Davidson County Chancery Court's decision in the Tennessee Chancery Court of Appeals seeking the court's review and reversal of all the major issues on which the Chancery Court ruled against Fisk.

The appeals of the above rulings have not been scheduled for argument before the court. The ultimate outcome of this litigation cannot be determined at present. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

All Federal and State funds received by the University are subject to audit by the applicable governmental agencies and they can assess liabilities against the University, limit, suspend or terminate the University's participation in the various programs. Audits of certain major Federal programs have indicated that the University may not have fully complied with certain regulations governing the administration of the programs. The ultimate outcome of these matters is not known at this time. However, the University is in the process of responding to the Federal government and believes that the resultant liability or loss of funding, if any, would not be material to its ongoing operations.

Funds provided by the United States government under the Federal Perkins loan program are loaned to qualified students and may be re-loaned after collection. If the program had been liquidated, the potential liability under this program to the Federal government would be $329,686 and $338,472 as of June 30, 2008 and 2007, respectively.

The University has a collective bargaining agreement covering certain of its full-time, regular clerical and technical employees, which expires in June 2009.

K. NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets of $3,192,205 and $5,504,016 at June 30, 2008 and 2007, respectively, were available for instruction, research, institutional support and scholarships. Permanently restricted net assets of $11,731,975 and $10,300,094 at June 30, 2008 and 2007, respectively, consist of endowment funds whose income is to be used to fund scholarships and general educational support.

During the years ended June 30, 2008 and 2007, net assets of $3,165,575 and $3,907,174, respectively were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During fiscal 2007 certain assets previously held in trust by others totaling $2,210,845 were released from restriction and received by the University. The remaining net assets released from restriction during fiscal 2007 and substantially all temporarily restricted net assets released from restriction in 2008 were for operations, scholarships and grant activities.

L. FUNCTIONAL ALLOCATION OF EXPENSES

During the years ended June 30, 2008 and 2007, the University allocated the cost of certain professional fees and the operation and maintenance of physical plant, including depreciation expense of $2,859,948 and $2,806,239, respectively, over the cost of providing instruction, research, academic support, institutional support and auxiliary enterprises as follows:

	2008	2007
Instruction	$1,990,091	$1,837,294
Research	1,182,148	1,091,384
Academic support	892,990	824,426
Student Services	1,071,588	989,312
Institutional support	2,781,025	2,567,500
Auxiliary enterprises	586,822	541,766
Total operation and maintenance of physical plant	$8,504,664	$7,851,682

Interest expense totaling $840,538 and $822,937 for fiscal 2008 and 2007, respectively, has been included and allocated in the above amounts.

M. FUNDRAISING AND ADVERTISING EXPENSES

During the years ended June 30, 2008 and 2007, the University incurred fundraising expenses of its development and alumni offices, of $786,656 and $917,446, respectively.

The University also incurred advertising cost in the amounts of $7,346 and $40,970 for the years ended June 30, 2008 and 2007, respectively.

N. LEASES

The University leases certain equipment under non-cancelable operating leases which expire at various dates through September 2013. Rent expense under these lease arrangements amounted to $18,089 and $24,697 for the years ended June 30, 2008 and 2007, respectively.

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2008, are as follows:

Year Ending June 30,	Amount
2009	$ 6,864
2010	3,324
2011	3,324
2012	3,324
2013	3,324
Thereafter	637
	$20,797

O. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and investments held by the University. Cash at June 30, 2008 includes demand deposits at high quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits; however, the University does not anticipate nonperformance by the various financial institutions and investees. The exposure to concentrations of credit risk relative to securities is dependent on the University's investment objectives and policies. An accounting risk also extends to receivables, net of allowances, which are uncollateralized.