

FISK UNIVERSITY
FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

FISK UNIVERSITY

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1
FINANCIAL STATEMENTS	
Balance Sheets.....	2 - 3
Statements of Activities.....	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 20



Independent Auditors' Report

The Board of Trustees
Fisk University
Nashville, Tennessee

We have audited the accompanying balance sheets of Fisk University as of June 30, 2005 and 2004, 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 the 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 Fisk University as of June 30, 2005 and 2004, 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.

As discussed in Note K to the financial statements, the University is currently requesting a declaratory ruling from the Davidson County Chancery Court that it has the legal authority to sell certain art of significant value. The art is included in investments in the financial statements. A foundation unrelated to the University has filed a motion with the court to prevent the sale of this art and any pieces of the related collection. 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 unrelated foundation are without merit and intends to vigorously defend its position. Since the 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, Vaden & Associates, P.C.

January 27, 2006
Nashville, Tennessee

FISK UNIVERSITY
BALANCE SHEETS
JUNE 30, 2005 AND 2004

ASSETS

	2005			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 854,430	\$ 59,184	\$ -	\$ 913,614
Accounts and contributions receivable, less allowance for doubtful accounts and discount	3,583,465	1,625,491	-	5,208,956
Notes receivable, less allowance for doubtful accounts	575,338	-	-	575,338
Prepaid expenses	438,137	-	-	438,137
Investments in marketable securities	1,391,114	4,179,911	2,030,195	7,601,220
Investments in art collection	23,528,725	-	17,917,650	41,446,375
Real estate, at estimated fair value	984,650	-	-	984,650
Property and equipment, at cost, net of accumulated depreciation	<u>30,957,859</u>	<u>-</u>	<u>-</u>	<u>30,957,859</u>
Total Assets	<u>\$62,313,718</u>	<u>\$5,864,586</u>	<u>\$19,947,845</u>	<u>\$88,126,149</u>

LIABILITIES

Accounts payable and accrued expenses	\$ 4,259,087	\$ -	\$ -	\$ 4,259,087
Deposits and amounts held in custody for others	104,290	-	-	104,290
Deferred revenue	706,776	-	-	706,776
Capital lease obligation	109,217	-	-	109,217
Bank lines-of-credit and note payable	2,221,451	-	-	2,221,451
Bonds payable	10,254,518	-	-	10,254,518
Advances from Federal government for Perkins loan programs	<u>312,330</u>	<u>-</u>	<u>-</u>	<u>312,330</u>
Total liabilities	<u>17,967,669</u>	<u>-</u>	<u>-</u>	<u>17,967,669</u>

NET ASSETS

Unrestricted	\$44,346,049	\$ -	\$ -	\$44,346,049
Temporarily restricted	-	5,864,586	-	5,864,586
Permanently restricted	<u>-</u>	<u>-</u>	<u>19,947,845</u>	<u>19,947,845</u>
Total net assets	<u>44,346,049</u>	<u>5,864,586</u>	<u>19,947,845</u>	<u>70,158,480</u>
Total liabilities and net assets	<u>\$62,313,718</u>	<u>\$5,864,586</u>	<u>\$19,947,845</u>	<u>\$88,126,149</u>

2004			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,613,034	\$ 426,304	\$ -	\$ 2,039,338
2,177,000	1,980,284	-	4,157,284
200,716	-	-	200,716
410,633	-	-	410,633
2,321,216	2,975,616	1,831,454	7,128,286
12,252,030	-	17,917,650	30,169,680
984,650	-	-	984,650
<u>32,908,715</u>	<u>-</u>	<u>-</u>	<u>32,908,715</u>
<u>\$52,867,994</u>	<u>\$5,382,204</u>	<u>\$19,749,104</u>	<u>\$77,999,302</u>
\$ 3,434,324	\$ -	\$ -	\$ 3,434,324
85,449	-	-	85,449
260,385	-	-	260,385
41,469	-	-	41,469
992,936	-	-	992,936
10,780,096	-	-	10,780,096
<u>347,642</u>	<u>-</u>	<u>-</u>	<u>347,642</u>
<u>15,942,301</u>	<u>-</u>	<u>-</u>	<u>15,942,301</u>
\$36,925,693	\$ -	\$ -	\$36,925,693
-	5,382,204	-	5,382,204
<u>-</u>	<u>-</u>	<u>19,749,104</u>	<u>19,749,104</u>
<u>36,925,693</u>	<u>5,382,204</u>	<u>19,749,104</u>	<u>62,057,001</u>
<u>\$52,867,994</u>	<u>\$5,382,204</u>	<u>\$19,749,104</u>	<u>\$77,999,302</u>

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

	2005			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Tuition and fees	\$ 10,162,301	\$ -	\$ -	\$ 10,162,301
Less: Scholarships and fellowships	<u>(2,949,644)</u>	<u>-</u>	<u>-</u>	<u>(2,949,644)</u>
Net tuition and fees	7,212,657	-	-	7,212,657
Government grants	7,782,769	-	-	7,782,769
Private gifts and grants	1,902,845	2,471,848	198,741	4,573,434
Sales and services of auxiliary enterprises	3,388,076	-	-	3,388,076
Income on investments	161,501	-	-	161,501
Net gains on investments	11,636,916	-	-	11,636,916
Other income	<u>203,351</u>	<u>-</u>	<u>-</u>	<u>203,351</u>
	32,288,115	2,471,848	198,741	34,958,704
Net assets released from restrictions	<u>1,989,466</u>	<u>(1,989,466)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>34,277,581</u>	<u>482,382</u>	<u>198,741</u>	<u>34,958,704</u>
Expenses				
Instruction	5,817,705	-	-	5,817,705
Research	5,711,061	-	-	5,711,061
Academic support	2,917,228	-	-	2,917,228
Student services	3,270,260	-	-	3,270,260
Institutional support	7,424,819	-	-	7,424,819
Auxiliary enterprises	<u>1,716,152</u>	<u>-</u>	<u>-</u>	<u>1,716,152</u>
Total expenses	<u>26,857,225</u>	<u>-</u>	<u>-</u>	<u>26,857,225</u>
INCREASE (DECREASE) IN NET ASSETS	7,420,356	482,382	198,741	8,101,479
NET ASSETS, at beginning of year	<u>36,925,693</u>	<u>5,382,204</u>	<u>19,749,104</u>	<u>62,057,001</u>
NET ASSETS, at end of year	<u>\$ 44,346,049</u>	<u>\$ 5,864,586</u>	<u>\$19,947,845</u>	<u>\$ 70,158,480</u>

2004			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 9,737,483	\$ -	\$ -	\$ 9,737,483
(2,802,138)	-	-	(2,802,138)
6,935,345	-	-	6,935,345
5,981,815	-	-	5,981,815
1,805,642	2,280,226	664,391	4,750,259
3,650,745	-	-	3,650,745
184,948	-	-	184,948
809,174	-	-	809,174
300,217	-	-	300,217
19,667,886	2,280,226	664,391	22,612,503
1,734,366	(1,734,366)	-	-
<u>21,402,252</u>	<u>545,860</u>	<u>664,391</u>	<u>22,612,503</u>
5,536,460	-	-	5,536,460
3,291,193	-	-	3,291,193
2,475,797	-	-	2,475,797
2,972,681	-	-	2,972,681
7,497,297	-	-	7,497,297
1,635,229	-	-	1,635,229
<u>23,408,657</u>	<u>-</u>	<u>-</u>	<u>23,408,657</u>
(2,006,405)	545,860	664,391	(796,154)
<u>38,932,098</u>	<u>4,836,344</u>	<u>19,084,713</u>	<u>62,853,155</u>
<u>\$ 36,925,693</u>	<u>\$ 5,382,204</u>	<u>\$19,749,104</u>	<u>\$ 62,057,001</u>

See accompanying notes to financial statements.

FISK UNIVERSITY
STATEMENTS OF CASH FLOW

	Year Ended June 30,	
	2005	2004
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 8,101,479	\$ (796,154)
Adjustments to reconcile increase (decrease) net assets to net cash used in operating activities:		
Depreciation expense	3,253,973	3,270,822
Amortization expense	17,864	19,519
Gains on investments	(11,636,916)	(809,174)
Bad debt expense	353,840	617,148
Endowed gifts reclassified to financing activities	(198,741)	(664,391)
(Increase) in accounts and contributions receivable	(1,279,512)	(1,034,293)
(Increase) in notes receivable	(500,622)	(104,159)
(Increase) decrease in prepaid expenses	(45,368)	97,910
Increase (decrease) in accounts payable, accrued expenses and deferred revenue	1,271,154	(1,335,256)
Increase (decrease) in deposits held for others	<u>18,841</u>	<u>(43,529)</u>
Net cash used in operating activities	<u>(644,008)</u>	<u>(781,557)</u>
Cash flows from investing activities:		
Net (increase) decrease in investments	(112,713)	2,416,210
Increase in real estate investment	-	(234,553)
Purchase of property and equipment	(1,203,823)	(2,540,663)
Decrease in advances from Federal government	<u>(35,312)</u>	<u>(47,149)</u>
Net cash used in investing activities	<u>(1,351,848)</u>	<u>(406,155)</u>
Cash flows from financing activities:		
Endowed gifts reclassified from operating activities	198,741	664,391
Proceeds from notes payable and lines-of-credit	1,228,515	-
Principal repayment of capital lease obligation	(31,546)	(21,566)
Principal repayment of bonds and notes payable	<u>(525,578)</u>	<u>(519,904)</u>
Net cash provided by financing activities	<u>870,132</u>	<u>122,921</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,125,724)	(1,064,791)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,039,338</u>	<u>3,104,129</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 913,614</u>	<u>\$ 2,039,338</u>
<i>Supplemental disclosure and non-cash investing activities:</i>		
Cash paid for interest	<u>\$ 616,159</u>	<u>\$ 455,963</u>
Property and equipment acquired under capital lease obligations	<u>\$ 99,294</u>	<u>\$ -</u>

See accompanying notes to financial statements.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 are 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 maintains 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 statements of financial position and the amount of change in each class of net assets is displayed in the statements of activities.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 require 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.

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 statements of activities.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

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

Certain amounts as previously reported in the 2004 financial statements have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on net assets as reported at that date.

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.

Cash and Cash Equivalents

For purposes of the statements 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 one year at the date of purchase. Included in the cash balances at June 30, 2005 and 2004, are the following groups of cash and cash equivalents:

	<u>2005</u>	<u>2004</u>
Bond reserves held by trustee	\$ 1,003,919	\$ 970,506
Cash from Federal Perkins loan program	35,401	190,042
Other restricted cash	23,783	236,262
Other operating cash (overdraft)	<u>(149,489)</u>	<u>642,528</u>
Total cash and cash equivalents	<u>\$ 913,614</u>	<u>\$2,039,338</u>

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

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. 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 endowment and similar funds. That income is accounted for as temporarily restricted net assets if restricted, or if unrestricted as unrestricted net assets.

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost in the accompanying statements of financial position, 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

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

Allowance for Doubtful Accounts and Discount

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:

	<u>2005</u>	<u>2004</u>
Student accounts receivable	\$1,148,680	\$950,000
Federal Perkins and institutional notes receivable	\$1,363,680	\$1,238,680

Bond Issuance Costs

The University amortizes deferred bond issuance costs of \$376,371 over the life of the related bonds, twenty years, using the interest method. The unamortized balances were \$265,338 and \$283,202 at June 30, 2005 and 2004, respectively, which is included in prepaid expenses. The total amortization expense was \$17,864 for 2005 and \$19,519 for 2004.

Deferred Revenue

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

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.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable June 30, 2005 and 2004, (included in accounts and contributions receivable) consisted of the following:

	<u>2005</u>	<u>2004</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 682,655	\$ 725,937
One year to five years	713,346	923,425
More than five years	<u>1,479,703</u>	<u>1,676,445</u>
	2,875,704	3,325,807
Less allowance for uncollectible pledges and unamortized discount at 3.75% and 3.79%, respectively	<u>(578,657)</u>	<u>(673,045)</u>
	<u>\$ 2,297,047</u>	<u>\$ 2,652,762</u>

D. INVESTMENTS

At June 30, 2005 and 2004, investments, stated at market value, are comprised of the following significant classifications:

	<u>2005</u>	<u>2004</u>
Investments in marketable securities:		
Certificates of deposit and money market funds	\$ 4,799	\$ 145,351
Corporate stocks	2,864,303	3,889,044
Mutual bond and corporate stock funds	<u>4,732,118</u>	<u>3,093,891</u>
	<u>\$7,601,220</u>	<u>\$7,128,286</u>

At June 30, 2005 and 2004, the University had funds held in trust amounting to \$3,314,371 and \$3,314,339, respectively. These funds are held by various financial institutions for the benefit of the University and have been included in investments.

The return on (investment income, gains and losses) investments in marketable securities was 11.1% and 12.5% based on the average market value of such investments for fiscal years 2005 and 2004, respectively.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

D. INVESTMENTS - Continued

The University's collection of art held for investment is stated at the most recently available independently appraised values totaling \$41,446,375 and \$30,169,680 at June 30, 2005 and 2004 (See Note K). The collection consists of paintings, photographs, sculptures and various other pieces. The portion of the collection restricted in perpetuity by the donors is reflected within the permanently restricted net assets (See Note I & L).

During fiscal 2005, the University had an appraisal performed on a significant portion of its art held for investment. As a result of the appraisal, the University has recorded the increase in fair value of \$8,076,400 as unrealized appreciation on the art held for investment which has been included in net gains in investments on the statement of activities.

Also, during fiscal 2005, by action at the Board of Trustees of the University, certain art previously unrecorded and held by the University for public exhibition and educational purposes has been designated as art held for investment. The University had an appraisal performed on this art and has recorded its fair value of \$2,900,295 in investments in art on the balance sheet as of June 30, 2005 and net gains on investments in the statement of activities for the year ended June 30, 2005.

At June 30, 2005 and 2004, the University owned investment real estate of \$984,650, respectively, based on the most recently available real estate appraisals.

E. PROPERTY, BUILDINGS AND EQUIPMENT

A summary of property and equipment at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 389,438	\$ 374,438
Buildings	46,186,499	45,703,814
Equipment and furniture	19,045,497	18,327,369
Library Books	1,539,445	1,436,420
Construction in progress	<u>49,905</u>	<u>65,626</u>
	67,210,784	65,907,667
Less: Accumulated depreciation	<u>(36,252,925)</u>	<u>(32,998,952)</u>
Property and equipment, net	<u>\$ 30,957,859</u>	<u>\$ 32,908,715</u>

Depreciation expense totaled \$3,253,973 and \$3,270,822 for the years ended June 30, 2005 and 2004, respectively.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

F. BANK LINES-OF-CREDIT AND NOTE PAYABLE

The University has a \$1,550,000 line-of-credit with a commercial bank, collateralized by real estate, bearing interest at the prime rate (6.25% at June 30, 2005) payable monthly and maturing May 31, 2006. The outstanding balance at June 30, 2005 and 2004, was \$1,542,936 and \$992,936, respectively.

During 2005, the University entered into a \$300,000 line-of-credit with a commercial bank, collateralized by investments, bearing interest at the prime rate (6.25% at June 30, 2005) payable monthly and maturing December 22, 2006. The outstanding balance at June 30, 2005 was \$225,000.

At June 30, 2005, the University has 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 (7.0% at June 30, 2005) accruing monthly.

G. BONDS PAYABLE

Bonds payable at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
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.	\$ 4,675,000	\$ 4,900,000
Revenue bonds, Series 2000, bearing a variable interest rate, initially at 6% and currently at 3.08% and paying interest semi-annually and maturing in varying annual principal installments through 2020.	<u>5,579,518</u>	<u>5,880,096</u>
	<u>\$10,254,518</u>	<u>\$10,780,096</u>

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

G. BONDS PAYABLE - Continued

The aggregate maturities of bonds payable over the next five years are as follows:

Year Ending, June 30

2006	\$ 574,296
2007	584,296
2008	599,296
2009	614,296
2010	629,296
Thereafter	<u>7,253,038</u>

\$10,254,518

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, 2005 and 2004, \$875,634 and \$866,798, respectively, were held by the bond trustee for the aforementioned payment, and were classified as cash and cash equivalents in the accompanying balance sheets. Additionally and among other restrictive covenants, the University is required to maintain a minimum debt service coverage ratio of 1.5 times net revenue on all of its outstanding indebtedness. The University has obtained appropriate waiver for restrictive covenant violations 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. Through February 2003, only interest payments on the bond were required to be made. Thereafter, monthly principal and interest payments are to be made to the bond trustee. At June 30, 2005 and 2004, the trustee held \$128,285 and \$103,708, respectively, as repayment for the bond requirement. The above funds are classified as cash in the accompanying financial statements. Additionally and among other restrictive covenants, the University is required to maintain minimum debt service coverage ratio of 2.0 times net revenue on all its outstanding indebtedness. The University has obtained appropriate waiver for restrictive covenant violations related to the 2000 bond issue.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

H. CAPITAL LEASE OBLIGATION

At June 30, 2005 and 2004, the University had capital lease obligations as follows:

	<u>2005</u>	<u>2004</u>
8.68% capital lease obligation for telephone equipment, principal and interest due in monthly installments of \$2,045 through April 23, 2006	\$ 19,664	\$41,469
8.46% capital lease obligation for copier equipment, principal and interest due in monthly installments of \$125 through December 20, 2009	5,597	-
8.46% capital lease obligation for copier equipment, principal and interest due in monthly installments of \$1,603 through November 15, 2009	70,679	-
13.20% capital lease obligation for dish washing equipment, principal and interest due in monthly installments of \$329 through August 9, 2009	<u>13,277</u>	<u>-</u>
	<u>\$109,217</u>	<u>\$41,469</u>

Minimum lease payments on capital lease obligations at June 30, 2005, are as follows:

Year Ending June 30,

2006	\$ 45,138
2007	24,682
2008	24,682
2009	24,682
2010	<u>10,593</u>
	129,777
Amount representing interest	<u>(20,560)</u>
	<u>\$ 109,217</u>

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

I. INTERFUND NOTE RECEIVABLE AND PAYABLE

In April 2002, the Board of Trustees authorized the University to borrow up to \$3,500,000 from its investment accounts, which consisted of permanently endowed funds. In May 2003, the Board of Trustees authorized an additional \$4,000,000 to be borrowed from the investment accounts. At June 30, 2004, the University had borrowed \$7,495,124 from these accounts. The University executed a 4.34% promissory note on the initial borrowing and a 4.75% promissory note for the May 2003 borrowing. The outstanding principal obligation along with accrued interest was paid in full at June 30, 2004 with unrestricted artwork. This repayment was authorized by the University's Board of Trustees.

J. 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 \$145,291 and \$163,598 to the plan for the years ended June 30, 2005 and 2004, respectively.

K. COMMITMENTS AND CONTINGENCIES

Subsequent to June 30, 2005, 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"), 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 will enhance the value of the art. To obtain such a ruling, the University filed a Complaint for Declaratory Judgment in December 2005. The lawsuit requests 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 has intervened in the lawsuit and seeks to prevent the sale of the art. 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 unrelated foundation are wholly unmerited. Moreover, the University asserts that the foundation lacks standing to intervene in the lawsuit based on multiple facts. Noting these facts, the Davidson County Chancery Court, found the foundation had a colorable claim which was sufficient under Tennessee Rules of Civil Procedure to intervene. The court did not rule on the issue of the foundation's standing but held that Fisk may challenge the foundation's standing in the

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

K. COMMITMENTS AND CONTINGENCIES - Continued

course of the litigation. The University intends to vigorously assert its position in this litigation. The ultimate outcome of this litigation cannot be determined at present. However, in management's opinion, the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

The University is a defendant in several other lawsuits. Management and legal counsel are of the opinion that liabilities, if any, resulting from such proceedings would not be material to the University's financial position.

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. Separate independent audits of the Federal student financial assistance 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, 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 \$312,330 and \$347,642 as of June 30, 2005 and 2004, respectively.

The University has a collective bargaining agreement covering certain of its full-time, regular clerical and technical employees, which expires in June 2006.

L. NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTION

Temporarily restricted net assets of \$5,864,586 and \$5,382,204 at June 30, 2005 and 2004, respectively, were available for instruction, research, institutional support and scholarships. Permanently restricted net assets of \$19,947,845 and \$19,749,104 at June 30, 2005 and 2004, respectively, consist of endowment funds whose income is to be used to fund scholarships and general educational support.

During the years ended June 30, 2005 and 2004, net assets of \$1,989,466 and \$1,734,366, respectively, were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Substantially all temporarily restricted net assets released from restriction in 2005 and 2004 were for scholarships and grant activities.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

M. FUNCTIONAL ALLOCATION OF EXPENSES

During the years ended June 30, 2005 and 2004, the University allocated the cost of operation and maintenance of physical plant, including depreciation expense of \$3,253,973 and \$3,270,822, respectively, over the cost of providing instruction, research, academic support, institutional support and auxiliary enterprises as follows:

	<u>2005</u>	<u>2004</u>
Instruction	\$1,828,566	\$1,655,464
Research	1,088,199	983,375
Academic support	820,511	742,836
Student Services	984,612	891,403
Institutional support	2,555,305	2,313,404
Auxiliary enterprises	<u>539,193</u>	<u>488,150</u>
 Total operation and maintenance of physical plant	 <u>\$7,816,386</u>	 <u>\$7,074,632</u>

Interest expense totaling \$616,159 and \$424,088 for fiscal 2005 and 2004, respectively, has been included and allocated in the above amounts.

N. FUNDRAISING AND ADVERTISING EXPENSES

During the years ended June 30, 2005 and 2004, the University incurred fundraising expenses of its development office, of \$841,147 and \$805,320, respectively.

The University also incurred advertising cost in the amounts of \$41,100 and \$73,296 for the years ended June 30, 2005 and 2004, respectively.

FISK UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

O. LEASES

The University leases certain equipment under non-cancelable operating leases which expire at various dates through October 2008. Rent expense under these lease arrangements amounted to \$51,298 and \$46,187 for the years ended June 30, 2005 and 2004, 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, 2005, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$34,523
2007	24,697
2008	18,089
2009	<u>4,177</u>
	<u>\$81,486</u>

P. 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, 2005 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.