

Furman University

Financial Statements
June 30, 2007 and 2006

Furman University

Table of Contents

	<u>Page</u>
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities.....	3-4
Statements of Cash Flows.....	5
Notes to Financial Statements	6-21



Independent Auditors' Report

Furman University
Board of Trustees
Greenville, South Carolina

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These 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 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 Furman University as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry Bekaert + Holland, C.C.P.A.

Greenville, South Carolina
August 29, 2007

Furman University

Statements of Financial Position June 30, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 8,415,562	\$ 10,637,157
Accrued interest receivable	111,031	210,328
Accounts receivable, net	2,079,809	2,013,045
Contributions receivable	8,667,180	7,355,043
Notes receivable	372,435	336,582
Prepaid expenses and other current assets	2,274,372	1,970,807
Total current assets	21,920,389	22,522,962
Investments		
Equity interest in The Hollingsworth Funds, Inc.	486,055,426	416,559,928
Equity interest in Furman University Foundation	129,245,969	127,659,944
Contributions receivable	1,582,607	62,207
Notes receivable	16,240,608	20,278,767
Property and equipment, net	5,260,326	5,076,080
Other long-term assets	213,121,234	181,153,885
Total assets	\$ 876,531,688	\$ 776,653,078
Current liabilities		
Accounts payable	\$ 6,670,475	\$ 2,691,845
Current portion of long-term debt	1,444,782	1,326,772
Deposits and advance payments	8,521,744	4,479,894
Accrued compensation	5,106,516	4,671,833
Other liabilities	3,094,181	2,931,609
Total current liabilities	24,837,698	16,101,953
Long-term debt, net of current portion		
Other liabilities	107,400,111	96,981,366
Obligation under split-interest agreements	1,207,106	1,383,007
Advances from federal government for student loans	3,777,961	3,350,647
Total liabilities	142,121,592	122,739,163
Net assets		
Unrestricted		
For current operations	1,435,300	621,792
Designated for specific purposes	455,051,392	377,060,200
Total unrestricted	456,486,692	377,681,992
Temporarily restricted		
Permanently restricted	152,424,011	154,962,150
Total net assets	125,499,393	121,269,773
Total net assets	734,410,096	653,913,915
Total liabilities and net assets	\$ 876,531,688	\$ 776,653,078

See notes to financial statements.

Furman University

Statements of Activities June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support				
Tuition and fees, net of financial aid	\$ 49,893,269	\$ -	\$ -	\$ 49,893,269
Contributions	9,400,846	4,967,059	2,558,418	16,926,323
Grants	1,653,300	-	-	1,653,300
Investment return designated for operating activities	28,293,544	47,853	-	28,341,397
Auxiliary enterprises	22,115,294	-	-	22,115,294
Intercollegiate athletics	3,200,921	-	-	3,200,921
Other	2,518,906	400	-	2,519,306
Satisfaction of program restrictions	4,886,076	(4,886,076)	-	-
Operating revenues and gains	<u>121,962,156</u>	<u>129,236</u>	<u>2,558,418</u>	<u>124,649,810</u>
Operating expenses				
Educational and general expenses				
Instruction	43,655,209	-	-	43,655,209
Research	1,160,140	-	-	1,160,140
Public service	356,497	-	-	356,497
Academic support	11,692,781	-	-	11,692,781
Student services	17,838,990	-	-	17,838,990
Institutional support	15,559,972	-	-	15,559,972
Auxiliary enterprises	18,380,560	-	-	18,380,560
Total expenses	<u>108,644,149</u>	<u>-</u>	<u>-</u>	<u>108,644,149</u>
Operating revenues and gains over expenses	13,318,007	129,236	2,558,418	16,005,661
Non-operating revenue (expenses)				
Excess of investment earnings over spending rate amount	60,704,447	1,814,663	311,678	62,830,788
Satisfaction of capital acquisition restrictions	3,341,522	(3,341,522)	-	-
Gain on disposal of property and equipment	179,316	-	-	179,316
Changes in split interest obligations	(50,176)	298,222	146,089	394,135
Other	1,311,584	(1,438,738)	1,213,435	1,086,281
Change in net assets	<u>78,804,700</u>	<u>(2,538,139)</u>	<u>4,229,620</u>	<u>80,496,181</u>
Net assets, beginning of year	<u>377,681,992</u>	<u>154,962,150</u>	<u>121,269,773</u>	<u>653,913,915</u>
Net assets, end of year	<u>\$ 456,486,692</u>	<u>\$ 152,424,011</u>	<u>\$ 125,499,393</u>	<u>\$ 734,410,096</u>

See notes to financial statements.

Furman University

Statements of Activities June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support				
Tuition and fees, net of financial aid	\$ 47,308,049	\$ -	\$ -	\$ 47,308,049
Contributions	8,469,437	13,362,995	10,133,044	31,965,476
Grants	1,782,638	-	-	1,782,638
Investment return designated for operating activities	18,619,064	49,261	-	18,668,325
Auxiliary enterprises	19,929,864	-	-	19,929,864
Intercollegiate athletics	2,981,996	-	-	2,981,996
Other	4,049,558	(60,395)	96,731	4,085,894
Satisfaction of program restrictions	5,192,563	(5,192,563)	-	-
Operating revenues and gains	108,333,169	8,159,298	10,229,775	126,722,242
Operating expenses				
Educational and general expenses				
Instruction	41,195,589	-	-	41,195,589
Research	1,449,587	-	-	1,449,587
Public service	386,684	-	-	386,684
Academic support	10,412,838	-	-	10,412,838
Student services	17,584,817	-	-	17,584,817
Institutional support	14,076,253	-	-	14,076,253
Auxiliary enterprises	16,143,114	-	-	16,143,114
Total expenses	101,248,882	-	-	101,248,882
Operating revenues and gains over expenses	7,084,287	8,159,298	10,229,775	25,473,360
Excess of investment earnings over spending rate amount	39,867,657	2,369,251	222,601	42,459,509
Satisfaction of capital acquisition restrictions	1,568,198	(1,568,198)	-	-
Loss on disposal of property and equipment	(76,454)	-	-	(76,454)
Changes in split interest obligations	(48,800)	40,471	1,917	(6,412)
Other	503,049	1,253,184	345,693	2,101,926
Change in net assets	48,897,937	10,254,006	10,799,986	69,951,929
Net assets, beginning of year	328,784,055	144,708,144	110,469,787	583,961,986
Net assets, end of year	\$ 377,681,992	\$ 154,962,150	\$ 121,269,773	\$ 653,913,915

See notes to financial statements.

Furman University

Statements of Cash Flows
June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 80,496,181	\$ 69,951,929
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	6,433,119	7,766,096
Loss on refunding of long-term debt	1,303,617	-
Loss (gain) on disposal of property and equipment	(179,316)	32,322
Net realized gain on sale of investment	(23,282,802)	(25,628,287)
Net unrealized gain on investments	(55,664,941)	(20,621,645)
Net unrealized loss (gain) on interest rate swap	89,572	(1,213,876)
Equity interest in Furman University Foundation	(1,520,400)	68,894
Contributions restricted for long-term investment	(10,445,476)	(9,395,265)
Contributions restricted for investments subject to split interest agreements	(1,313,569)	(710,614)
Decrease in value of obligations under split-interest agreements	350,384	638,371
Non-cash contributions and other	579,364	(70,944)
Change in assets and liabilities		
Accrued interest receivable	99,297	377,705
Accounts receivable	(66,764)	(7,864)
Contributions receivable	2,726,022	(13,256,998)
Other assets	(416,226)	(117,425)
Accounts payable	3,978,630	5,963
Deposits and advance payments	41,850	141,789
Accrued compensation and other liabilities	597,255	(197,877)
Net cash provided by operating activities	3,805,797	7,762,274
Cash flows from investing activities		
Capital expenditures	(34,129,223)	(13,522,319)
Purchases of investments	(80,224,401)	(140,065,444)
Proceeds from sale of investments	88,140,129	100,693,444
Proceeds from sale of property and equipment	263,173	69,300
(Decrease) in advances from federal government for student loans	(23,474)	(41,686)
Loans made to students	(1,313,274)	(1,375,109)
Repayment of student loans	1,032,572	1,358,367
Net cash used in investing activities	(26,254,498)	(52,883,447)
Cash flows from financing activities		
Contributions restricted for long-term investment	10,445,476	9,395,265
Contributions restricted for investments subject to split interest agreements	1,313,569	710,614
Payments on long-term debt	(36,570,000)	(905,000)
Payments on capital leases	(387,113)	(468,438)
Payments on split-interest agreements	(504,378)	(438,321)
Payments of bond issuance costs	(381,049)	-
Proceeds from borrowings	46,310,601	40,654,976
Net cash provided by financing activities	20,227,106	48,949,096
Net change in cash and cash equivalents	(2,221,595)	3,827,923
Cash and cash equivalents, beginning of year	10,637,157	6,809,234
Cash and cash equivalents, end of year	\$ 8,415,562	\$ 10,637,157
Supplemental cash flow information		
Capital lease incurred to purchase property and equipment	\$ 561,841	\$ 57,315
Accounts payable for property and equipment acquisitions	\$ 4,765,526	\$ 1,139,193

See notes to financial statements.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies

Organization

Furman University, founded in 1826, is a private, coeducational, not-for-profit institution of higher education based in Greenville, South Carolina. The University's primary emphasis is on providing a liberal arts education at the undergraduate level. The University also offers graduate and continuing education programs. The President and Board of Trustees, a self-perpetuating governing board with thirty-six members drawn from private, public and community interests, have oversight responsibility for all of the University's financial affairs.

Basis of Presentation

The University's net assets have been grouped into the following three classes:

Unrestricted Net Assets - Unrestricted net assets result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and receiving dividends and interest from investing in income-producing assets.

Temporarily Restricted Net Assets - Temporarily restricted net assets result from contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose 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. Donor-restricted contributions whose restrictions are met within the same year as received are classified as temporarily restricted contributions and are then released from restrictions in the same year.

Permanently Restricted Net Assets - Permanently restricted net assets represent the historical cost (market value at date of gift) of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the University.

Gifts received by the University in which the net asset classification is uncertain or has not been determined by the donor at the time of the gift are subsequently reclassified to the appropriate net asset category based on the clarification of the donor intent.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies, continued

Income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Tuition and fees are reported net of financial aid. Financial aid was \$28,821,064 and \$26,309,635 for the years ended June 30, 2007 and 2006, respectively.

Promises to Give

Unconditional promises to give are recognized as support in the period in which they are received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, using a risk-free discount rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in accordance with donor restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and fund raising activity.

Auxiliary Enterprises

Auxiliary enterprises furnish services to students, faculty and staff and include residence halls, a golf course, multi-purpose arena, conference center, food service and bookstore.

Grants

Grant revenue is recognized when qualified grant expenditures are incurred as they have been determined to be exchange transactions.

Cash and Cash Equivalents

The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The University presents all cash and cash equivalents held by investment managers as investments in the statement of financial position. It does not include cash held as investments.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies, continued

Investments

Investments are generally carried at market and net unrealized and realized gains or losses are reflected in the statements of activities. Certain land and other investments that do not have readily determinable market values are carried at cost. The value of publicly traded securities is based upon quoted market prices and net asset values. Diversified venture capital holdings and certain other limited partnership interests are carried at market values based upon financial information provided by external investment partners. Because the venture capital holdings are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for the investments existed.

Gifts of investments are recorded at fair value (based upon market quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date. All endowment investments except for investments which are not readily marketable or where donors specifically provide otherwise are maintained in a pool. Gifts that are invested in the pool are assigned units of participation in the pool based upon their market value of participation.

The Board designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool is used to support current operations. The University's endowment spending rate is based on 4.5% of the "spending base" established as of June 30, 2000. The base amount is increased at a rate of 4% annually, plus the nominal value of endowment gifts received through December 31 of the previous year.

Split-Interest Agreements

The University has certain trust agreements and other arrangements with donors under which both parties derive benefits. These types of arrangements are referred to as split-interest agreements. The University's interest in these split-interest agreements is reported as a contribution in the year received at its net present value based upon actuarially determined lives. Amortization of the related discount and revaluation of the expected cash flows are recognized as changes in the value of the split interest agreements in the year in which the change occurs.

Student Accounts Receivable

Student accounts receivable are reported at the estimated net realizable amount from students and are included in accounts receivable. Receivables are written off when deemed to be uncollectible. Receivables are considered to be past due after one year.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies, continued

Notes Receivable

Notes receivable are reported at the estimated net realizable amounts and include Perkins loans and loans made to students by the University.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. The University capitalizes property and equipment costing \$5,000 or more and with a useful life of at least three years. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3 to 75 years. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the statement of activities. Improvements that significantly extend the useful life of an asset are capitalized. Repairs and maintenance costs are charged to operating expenses.

The University's collections are made up of artifacts of historical significance and art objects. The University has capitalized its collections since 1948. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accessions date. Gains or losses on the deaccession of the collection items are classified in the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

Donations of property and equipment are recorded as support at their estimated fair value at the date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Deferred Revenues and Expenditures

Tuition and fee revenues and operating expenditures are recognized in the fiscal year in which the related term concludes. The accompanying statements of financial position as of June 30, 2007 and 2006 reflect deferred summer term revenues and expenditures that will be, or were, recognized as revenues and expenditures in fiscal years 2008 and 2007, respectively.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies, continued

Derivatives

The University is utilizing a derivative financial instrument to reduce its overall cost of capital. The University does not hold or issue derivative financial instruments for trading purposes. In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended by SFAS No. 138 and SFAS 149. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities. The statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in fair value of those instruments are reported as a change in net assets.

Costs of Borrowing

Interest costs incurred on borrowed funds during the construction of capital assets, net of investment income on proceeds of borrowings that are held by a trustee, are capitalized as a component of the cost of acquiring the assets. Bond issuance costs are amortized over the term of the bonds.

Statement of Activities

The Statement of Activities includes operating revenues and gains over (under) expenses. Transactions deemed by management to be ongoing, major and central to the provision of education, research, academic support and student services are reported as operating revenues and expenses. Changes in unrestricted net assets, which are excluded from operating revenues and gains over expenses, include excess or deficiency of investment return under total return policy, satisfaction of capital acquisition restrictions, change in split-interest obligation, change in fair value of derivative instrument, reclassification based on clarification of donor intent and other items that are deemed to be unrelated and not central to the educational mission of the University.

Income Taxes

The University is exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code. However, certain income unrelated to its exempt function is subject to income taxation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting policies requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates inherent in the preparation of financial statements include estimates of the allowance for uncollectible accounts, estimates of fair value on non-publicly traded securities, useful lives of depreciable assets, cash flows and actuarial assumptions used, and accruals for self-insurance liabilities.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies, continued

Risks and Uncertainties

The University invests in a combination of stocks, fixed income securities, money market funds, venture capital funds, real estate and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the University's investment balance reported in the statements of financial position.

Concentration of Credit Risk

The University maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may significantly exceed federally insured limits.

Related Party

Furman University Foundation (the "Foundation") operates to accept gifts and purchase and hold real estate for the exclusive use and benefit of the University. One member of the University's Board of Trustees and one member of the University's management serve on the Foundation's five-member board by virtue of their positions. Accounts receivable from the Foundation totaled \$985,614 and \$927,642, respectively, as of June 30, 2007 and 2006, and are included in accounts receivable, net. The University also provides accounting and management services at no charge to the Foundation. The value of these services has not been determined.

Asset Retirement Obligations

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The University derecognizes ARO liabilities when the related obligations are settled.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Furman University
Notes to Financial Statements
June 30, 2007 and 2006

Note 2 - Investments

Investments by security type as of June 30 were as follows:

	2007	2006
Equity securities	\$ 286,261,437	\$ 251,297,226
Corporate bonds	3,868,521	3,413,056
Government bonds	40,147,378	38,047,926
Commodities and other	41,620	57,249
Real estate	2,459,682	4,676,658
Alternative Investments	89,074,211	76,960,290
Funds held in perpetual trust by others	4,566,095	4,480,879
Money market funds	59,636,482	37,626,644
Total fair value	<u>\$ 486,055,426</u>	<u>\$ 416,559,928</u>
Total cost	<u>\$ 349,627,780</u>	<u>\$ 334,381,200</u>

Cash held by investment managers in short-term accounts is classified in investments.

The fair value of investments held by the University under split-interest agreements was approximately \$8.5 million and \$7.9 million at June 30, 2007 and 2006.

The following summarizes the investment gain, net of investment management expenses of \$1,490,410, and its classification in the Statement of Activities for the year ended June 30, 2007:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 9,100,117	\$ 1,808,966	\$ -	\$ 10,909,083
Net realized and unrealized gains	79,897,874	53,550	311,678	80,263,102
Return on investment	88,997,991	1,862,516	311,678	91,172,185
Return designated for operating activities	<u>(28,293,544)</u>	<u>(47,853)</u>	<u>-</u>	<u>(28,341,397)</u>
Excess of investment earnings over spending rate amount	<u>\$ 60,704,447</u>	<u>\$ 1,814,663</u>	<u>\$ 311,678</u>	<u>\$ 62,830,788</u>

The following summarizes the investment gain, net of investment management expenses of \$1,059,314, and its classification in the Statement of Activities for the year ended June 30, 2006:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 13,359,248	\$ 1,466,524	\$ 27,308	\$ 14,853,080
Net realized and unrealized gains	45,127,473	951,988	195,293	46,274,754
Return on investment	58,486,721	2,418,512	222,601	61,127,834
Return designated for operating activities	<u>(18,619,064)</u>	<u>(49,261)</u>	<u>-</u>	<u>(18,668,325)</u>
Excess (deficiency) of investment earnings over spending rate amount	<u>\$ 39,867,657</u>	<u>\$ 2,369,251</u>	<u>\$ 222,601</u>	<u>\$ 42,459,509</u>

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 2 - Investments, continued

A significant portion of the University's investments consist of units of private partnerships and investment companies. These partnerships and investment companies, in turn, invest in other private investment vehicles. Management relies on various factors to estimate the fair value of these investments. Management believes its processes and procedures for valuing investments are effective, and, that its estimate of value is reasonable. However, the factors used by management are subject to change in the near term, and, accordingly, investment values and performance can be affected. The effect of these changes could be material to the financial statements.

Net returns on non-marketable alternative investments for the years ended June 30 were as follows:

	2007	2006
Interest and dividends	\$ 3,299,080	\$ 4,306,478
Net realized gains	839,168	945,499
Net unrealized gains	22,417,613	20,685,605
Total return	\$ 26,555,861	\$ 25,937,582

Note 3 - Equity Interest in Hollingsworth Funds

In December 2000, the equity interest of John D. Hollingsworth On Wheels, Inc. and substantial real estate holdings passed to an IRS qualified supporting organization, The Hollingsworth Funds, upon the death of John D. Hollingsworth, the company's founder and sole stockholder. According to Mr. Hollingsworth's last will and testament, Furman University will receive approximately forty-five percent of the annual distribution to beneficiaries of The Hollingsworth Funds. During the year ending June 30, 2004, the estate of Mr. Hollingsworth cleared probate court and accordingly, the University recognized their equity interest in his estate of \$115,346,777. The University and the Hollingsworth Funds are financially inter-related organizations for financial reporting purposes and as a result, Furman accounts for this interest under the equity method of accounting and recognizes its share of changes in net assets of the Foundation.

For the years ended June 30, 2007 and June 30, 2006, Furman recognized \$1,586,025 and \$950,669, respectively, in unrealized gains that are reported as a non-operating change in temporarily restricted net assets on the Statement of Activities. Income distributions from the Hollingsworth Funds, Inc., which are reported as investment return and distributed to meet the donor's instructions, were \$1,808,966 and \$1,616,764 for the years ended June 30, 2007 and 2006, respectively.

Furman University

Notes to Financial Statements June 30, 2007 and 2006

Note 3 - Equity Interest in Hollingsworth Funds, continued

Summarized unaudited financial information of the Hollingsworth Funds, Inc. as of and for the years ended December 31 is as follows:

	2007	2006
Total assets	\$ 317,890,543	\$ 318,804,927
Total liabilities	32,101,145	36,522,556
Net assets	285,789,398	282,282,371
Total liabilities and net assets	317,890,543	318,804,927
Revenues and gains	39,088,992	39,537,449
Expenses and losses	35,696,558	38,932,150
Income tax benefit	(114,593)	-
Restatement of prior period net assets	-	1,496,825
Increase in net assets	3,507,027	2,102,124
Share of increase in net assets	1,586,025	950,669

Note 4 - Contributions Receivable

The following is a summary of contributions receivable as of June 30, 2007 and 2006:

	2007	2006
Unconditional contributions expected to be collected in:		
Less than one year	\$ 8,667,180	\$ 7,355,043
One to five years	17,192,267	21,807,799
Over five years	1,779,801	2,033,116
Charitable remainder trusts held by others	962,988	893,915
Contributions receivable	28,602,236	32,089,873
Less:		
Unamortized discount	(3,083,210)	(3,859,185)
Allowance for uncollectible pledges	(611,238)	(596,878)
Contributions receivable, net	\$ 24,907,788	\$ 27,633,810

The discount rate used for charitable remainder trusts held by others averaged approximately 7.0% at June 30, 2007 and 2006. The discount rate used for all other contributions receivable ranged from 0.96% to 6.2% at June 30, 2007 and 2006.

As of June 30, 2007, the University has conditional contributions totaling approximately \$1 million. The outstanding conditional contribution consists of one challenge grant which, if received, will be restricted for capital projects. No amount for this challenge grant has been recognized in the financial statements.

Furman University
Notes to Financial Statements
June 30, 2007 and 2006

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30:

	2007	2006
Land	\$ 2,041,948	\$ 2,001,448
Collections	3,599,158	-
Land improvements	12,460,086	11,536,226
Buildings	183,075,389	177,854,785
Library books	19,145,021	18,057,340
Equipment	36,257,590	41,169,008
	<u>256,579,192</u>	<u>250,618,807</u>
Less accumulated depreciation	(79,636,449)	(79,280,381)
Construction in progress	36,178,491	9,815,459
	<u>\$ 213,121,234</u>	<u>\$ 181,153,885</u>

Depreciation expense amounted to \$6,323,428 and \$7,622,816 in 2007 and 2006, respectively, including depreciation expense for assets held under capital leases of \$249,432 and \$326,770 for the years ended June 30, 2007 and 2006, respectively.

Note 6 - Capital leases

At June 30, property and equipment included the following amounts for assets recorded under capital leases:

	2007	2006
Equipment	\$ 1,368,740	\$ 2,484,203
Less: accumulated depreciation	783,207	2,169,153
	<u>\$ 585,533</u>	<u>\$ 315,050</u>

Furman University
Notes to Financial Statements
June 30, 2007 and 2006

Note 7 - Long-Term Debt and Capital Leases

Outstanding long-term debt and capital lease obligations as of June 30 were as follows:

Educational Facilities Revenue Bonds:	2007	2006
	<u> </u>	<u> </u>
Series 1996A, serial and term bonds, due in varying installments through October 1, 2026. The bonds bear interest, payable semi-annually, at rates ranging from 4.00% to 5.50%.	\$ -	\$ 17,950,000
Series 1996B, due in October 1, 2026. The bonds bear interest, payable monthly, at a variable rate (3.97% at June 30, 2006) which is determined by the remarketing agent pursuant to the Series 1996B Indenture.	-	12,000,000
Series 1999, due in varying installments through October 1, 2029. The bonds bear interest, payable semi-annually, at rates ranging from 3.40% to 5.00%.	9,170,000	9,390,000
Series 2000, due in varying installments through October 1, 2030. The bonds bear interest, payable semi-annually, at rates is ranging from 5.00% to 5.50%.	11,870,000	12,120,000
Series 2004, due in October 1, 2034. The bonds bear interest, payable monthly, at a variable rate (3.97% at June 30, 2006) which is determined by the remarketing agent pursuant to the Series 2004 Indenture.	-	6,150,000
Series 2006A, serial and term bonds, due in varying installments through October 1, 2039. The bonds bear interest, payable semi-annually, at rates ranging from 4.625% to 5.000%.	40,000,000	40,000,000
Series 2006B, due in October 1, 2039. The bonds bear interest, payable monthly, at a variable rate (3.88% at June 30, 2007) which is determined by the remarketing agent pursuant to the Series 2006B Indenture.	<u>46,660,000</u>	<u>-</u>
Par amount of long-term debt	107,700,000	97,610,000
Unamortized net premium	510,976	140,378
Total long-term debt	<u>108,210,976</u>	<u>97,750,378</u>
Capital leases	633,917	557,760
Long-term debt and capital leases	<u>108,844,893</u>	<u>98,308,138</u>
Less current portion	<u>(1,444,782)</u>	<u>(1,326,772)</u>
Long-term portion	<u>\$ 107,400,111</u>	<u>\$ 96,981,366</u>

Furman University
Notes to Financial Statements
June 30, 2007 and 2006

Note 7 - Long-Term Debt and Capital Leases, continued

Aggregate maturities, not presented net of premium, of long-term debt for each of the five fiscal years subsequent to June 30, 2007 are as follows:

Payable in fiscal year:		
2008	\$	1,432,800
2009		1,426,219
2010		1,259,898
2011		1,260,000
2012		1,310,000
Thereafter		<u>101,645,000</u>
Total	\$	<u>108,333,917</u>

The estimated fair value of the University's long-term debt, including current maturities, is approximately \$108,352,675 as of June 30, 2007 and \$100,696,770 as of June 30, 2006. Fair values are based on quoted market prices.

In July 2006, the University issued its Series 2006B variable-rate demand bonds in the principal amount of \$46,660,000. Ten million of the Series 2006B bonds were issued to pay the costs of continued construction, expansion and renovation of the Townes Science Center and other potential capital improvements. Remaining proceeds of \$36,660,000 primarily were used to refund Series 1996A, 1996B and 2004. An accounting loss of \$1.3 million for the refunding is included as a non-operating item for fiscal 2007 in the Statement of Activities.

Furman capitalizes and amortizes on a straight-line basis the original issue premium and issue costs related to applicable bond issues. Unamortized bond issue costs of \$1,164,338 and \$1,421,604 are included in Furman's statement of financial position at June 30, 2007 and 2006, respectively. Unamortized original issue net premium of \$510,976 and \$140,378 is included in long-term debt in Furman's statement of financial position, respectively. Total amortization expense for premium and issue costs was \$54,695 and \$87,155 for the years ended June 30, 2007 and 2006, respectively.

In July of 2004, the University entered into a borrowing agreement with a bank for a revolving line of credit for the purpose of maintaining invested cash balances during short periods preceding the collection of tuition and fees. The agreement made \$8 million available through July 31, 2005 and \$5 million for the period August 1, 2005 through August 1, 2007. Interest is payable monthly based on "LIBOR Daily Floating Rate" plus 65 basis points. The agreement contains various loan covenants, the most restrictive of which requires the University to maintain minimum unrestricted net assets of not less than \$200 million as of the end of each fiscal year. There were no draws against the line of credit at June 30, 2007 and 2006.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 7 - Long-Term Debt, continued

Trust Indentures underlying Furman University's Revenue Bonds and Line of Credit contain certain covenants and restrictions, with respect to which management believes it is in compliance at June 30, 2007 and 2006.

Interest expense on a cash and accrual basis for the years ended June 30 follows:

	2007	2006
Cash paid for interest:		
Bonds payable	\$ 5,181,709	\$ 2,623,799
Swap	3,554	-
Capital leases	34,625	30,781
Line of credit	-	22,050
Total cash paid for interest	5,219,888	2,676,630
Amortization of bond (premium) discount	(6,168)	12,395
Change in year-end accrual	(62,557)	4,148
Interest cost capitalized	(644,469)	(531,282)
Total interest expense	\$ 4,506,694	\$ 2,161,891

Note 8 - Interest Rate Swap Arrangement

During 2005, the University entered into an interest rate swap agreement with a financial services provider. The agreement, which took effect on September 29, 2006 and continues to its scheduled expiration in October 2026, was entered to hedge the interest rate on that component of the Series 2006B which was issued to refinance the Series 1996A Bonds. The notional amount outstanding was \$18,310,000 at June 30, 2007. Under this swap agreement, the University receives a floating rate of interest based on 68% of LIBOR and makes payments at a fixed interest rate of 3.635% on the notional amount. Under certain circumstances, the University may be required to post collateral or, in an event of default, the counterparty may terminate the transaction.

The fair value of the interest rate swap agreement is the estimated amount that the University would pay or receive to terminate the contract as of the report date. The estimated cumulative gain for the fair value of this swap agreement was \$197,453 and \$287,026 as of June 30, 2007 and 2006, respectively, and is included in other long-term assets. Changes in the fair value for this contract amounted to an unrealized loss of \$89,572 in fiscal 2007 and an unrealized gain of \$1,213,875 in fiscal 2006. The changes were recorded as other non-operating items in the Statement of Activities.

The University holds this derivative financial instrument for the purpose of hedging the cost of capital. The derivative is held only for the purpose of hedging such risk, not for speculation.

Furman University

Notes to Financial Statements June 30, 2007 and 2006

Note 9 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the years ended June 30:

Purpose restrictions accomplished	2007	2006
Educational and general expenditures		
Instruction and academic support	\$ 930,468	\$ 968,304
Research	85,490	158,595
Public service	39,365	137,199
Academic support	476,038	472,077
Student services	396,899	266,206
Institutional support	186,908	94,852
Facilities	1,404	528
Student aid	2,002,056	1,567,940
Other	767,448	1,526,863
Capital improvements	3,341,522	1,568,197
	\$ 8,227,598	\$ 6,760,761

Note 10 - Composition of Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2007	2006
Instruction and academic support	\$ 132,381,313	\$ 133,304,653
Public service	28,337	44,866
Student services	214,200	369,179
Institutional support	467,707	697,197
Student aid	1,240,865	1,335,847
Capital projects	6,010,393	5,725,312
Net contributions due in future periods	11,327,684	12,845,613
Unspecified designation	753,512	639,483
Total	\$ 152,424,011	\$ 154,962,150

In accordance with donor stipulations, permanently restricted assets are held in perpetuity. The income derived from these net assets is to be used as follows at June 30:

	2007	2006
Student aid	\$ 67,479,580	\$ 64,645,395
Instruction and academic support	45,975,212	45,088,465
Capital projects and building maintenance	12,044,601	11,535,913
Total	\$ 125,499,393	\$ 121,269,773

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 11 - Endowment Funds

Furman's endowment consists of approximately 700 separate funds established over many years for scholarships, professorships, academic programs and general institutional support. Endowment funds, including funds functioning as endowment, are classified and reported as permanently restricted, temporarily restricted or unrestricted, in accordance with donor specifications. Net losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the market value equals or exceeds book value. Although funds functioning as endowment are not subject to permanent donor restrictions, the decision to spend their principal would require the approval of the Board of Trustees.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The estimated fair values of trust assets, which approximate the present value of expected future cash flows from the trusts, are recognized as assets and contributions when the trusts are established. Income distributions from these trusts are recorded as investment return and distributed to meet the donor's restrictions.

For financial statement purposes these balances are classified as follows at June 30, 2007:

	Funds Functioning as Endowment	Term Endowment	True Endowment	Total
Unrestricted net assets	\$ 194,229,787	\$ 123,208	\$ 105,514,313	\$ 299,867,308
Temporarily restricted net assets	-	131,003,555	-	131,003,555
Permanently restricted net assets	-	-	113,739,071	113,739,071
Total endowment net assets	<u>\$ 194,229,787</u>	<u>\$ 131,126,763</u>	<u>\$ 219,253,384</u>	<u>\$ 544,609,934</u>

For financial statement purposes these balances are classified as follows at June 30, 2006:

	Funds Functioning as Endowment	Term Endowment	True Endowment	Total
Unrestricted net assets	\$ 145,157,350	\$ 117,606	\$ 95,560,811	\$ 240,835,767
Temporarily restricted net assets	-	129,203,300	-	129,203,300
Permanently restricted net assets	-	-	108,794,597	108,794,597
Total endowment net assets	<u>\$ 145,157,350</u>	<u>\$ 129,320,906</u>	<u>\$ 204,355,408</u>	<u>\$ 478,833,664</u>

Note 12 - Retirement Plan

The University sponsors a defined contribution retirement plan that covers substantially all full time faculty and staff employees. Contributions under this plan are applied to individual annuities issued to each plan participant. Employer contributions to the plan amount to 7.5% or 12.5% of base compensation based on years of service or attained age. Total retirement expense for the years ended June 30, 2007 and 2006 was \$3,994,757 and \$3,858,108, respectively.

Furman University

Notes to Financial Statements
June 30, 2007 and 2006

Note 13 - Fair Value of Financial Instruments

The University estimates that the fair value of all financial instruments at June 30, 2007 and 2006 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position, except as described in Note 8. The estimated fair value amounts have been determined by the University using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the University could realize in a current market exchange.

Note 14 - Development Expenses

The University incurred expenses related to development and fund-raising amounting to \$3,749,848 and \$3,809,615 during the years ended June 30, 2007 and 2006, respectively. Such amounts are included in institutional support (22% in 2007 and 24% in 2006) and Student Services (2% in 2007 and 2006) expenses in the accompanying statements of activities.

Note 15 - Commitments and Contingencies

Construction

At June 30, 2007 and 2006, open contracts for the construction of physical properties amounted to \$21,000,000 and \$5,700,000, respectively.

Investment Commitments

Furman has outstanding commitments of approximately \$21,000,000 as of June 30, 2007 for investment of endowment assets in limited partnership agreements. Funds to meet these commitments will be generated from rebalancing the endowment asset allocation, as well as donor gifts and existing endowment cash.

Self-Insurance

Furman provides employee healthcare benefits and unemployment benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through a third-party administrator. In the opinion of management, adequate provision has been made for related risks.

Litigation

Furman is engaged in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on Furman's financial position.