TAYLOR UNIVERSITY AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

May 31, 2010 and 2009

TAYLOR UNIVERSITY AND AFFILIATES

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TAYLOR UNIVERSITY AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Taylor University and Affiliates
Upland, Indiana

We have audited the accompanying consolidated statements of financial position of Taylor University (university) and Affiliates as of May 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over consolidated financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taylor University and Affiliates as of May 31, 2010 and 2009, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Greenwood, Indiana
September 27, 2010

TAYLOR UNIVERSITY AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	May 31, 2010	May 31, 2009
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 14,695	$ 10,902
Student accounts receivable–net of allowance	409	569
Other accounts receivable	1,273	1,842
General investments	19,740	21,681
Inventories	585	578
Current portion of notes receivable	54	17
Current portion of contributions receivable	1,579	911
Other assets	736	685
	39,071	37,185
Long-term assets:		
Bond issuance cost–net of amortization	374	392
Notes receivable–net of current portion	150	97
Federal student loan funds receivable	2,987	3,067
Contributions receivable–net of current portion	586	121
Deposits with external trustees	1,911	1,946
Investment in plant	67,588	68,799
Endowment assets	64,429	58,340
Annuity and trust assets	18,020	17,108
	156,045	149,870
Total Assets	$ 195,116	$ 187,055

(continued)

See notes to consolidated financial statements

TAYLOR UNIVERSITY AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

(continued)

	May 31, 2010	May 31, 2009
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 652	$ 619
Accrued liabilities	1,264	2,540
Accrued salaries and wages	3,804	4,120
Student advance payments and deposits	288	816
Grant advance payments	882	572
Current portion of annuities and trusts	536	552
Current portion of debt	834	812
	8,260	10,031
Long-term and other liabilities:		
Debt–net of current portion	16,041	16,877
Liability for federal student loan funds and asset retirement obligations	2,790	2,638
Annuities payable–net of current portion	3,876	4,401
Charitable trusts:		
Due other remaindermen	485	753
Due trust beneficiary	3,367	2,825
Revocable trusts	915	918
Health insurance trust	2,380	2,555
	29,854	30,967
Total liabilities	38,114	40,998
Net assets:		
Unrestricted	76,486	75,948
Temporarily restricted	26,993	19,342
Permanently restricted	53,523	50,767
Total net assets	157,002	146,057
Total Liabilities and Net Assets	$ 195,116	$ 187,055

See notes to consolidated financial statements

TAYLOR UNIVERSITY AND AFFILIATES

Consolidated Statements of Activities

(in thousands)

	Year Ended May 31, 2010				Year Ended May 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND RECLASSIFICATIONS:								
Educational and general:								
Tuition and fees	$ 50,798	$ -	$ -	$ 50,798	$ 46,466	$ -	$ -	$ 46,466
Less financial aid	(15,967)	-	-	(15,967)	(13,179)	-	-	(13,179)
Net tuition	34,831	-	-	34,831	33,287	-	-	33,287
Government appropriations	680	-	-	680	550	-	-	550
Gifts	4,338	7,410	517	12,265	3,870	3,113	239	7,222
Investment income (loss)	3,868	1,301	(17)	5,152	(1,677)	(6,450)	9,475	1,348
Other sources	2,697	168	-	2,865	2,395	961	(353)	3,003
Auxiliary enterprises	12,731	-	-	12,731	11,922	-	-	11,922
Net assets released from restrictions	3,376	(3,376)	-	-	2,833	(2,833)	-	-
Total Revenue and Reclassifications	62,521	5,503	500	68,524	53,180	(5,209)	9,361	57,332
EXPENSES AND LOSSES:								
Program services:								
Educational and general:								
Instruction	20,096	-	-	20,096	18,824	-	-	18,824
Academic support	6,477	-	-	6,477	5,599	-	-	5,599
Student affairs	10,725	-	-	10,725	10,278	-	-	10,278
Research	404	-	-	404	675	-	-	675
Public service	2,788	-	-	2,788	2,692	-	-	2,692
Auxiliary enterprises	10,982	-	-	10,982	10,475	-	-	10,475
Supporting activities:								
Institutional support	8,677	-	-	8,677	6,080	-	-	6,080
Fund-raising	2,113	-	-	2,113	2,189	-	-	2,189
Total Expenses	62,262	-	-	62,262	56,812	-	-	56,812

(continued)

See notes to consolidated financial statements

TAYLOR UNIVERSITY AND AFFILIATES

Consolidated Statements of Activities

(in thousands)

(continued)

	Year Ended May 31,							
	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Change in Net Assets Prior to Endowment and Discontinued Operations	259	5,503	500	6,262	(3,632)	(5,209)	9,361	520
ENDOWMENT:								
Gifts	8	-	1,181	1,189	41	-	1,360	1,401
Investment income (loss)	2,400	1,986	514	4,900	(3,798)	1	(10,297)	(14,094)
DISCONTINUED OPERATIONS:								
Revenues	1,065	197	561	1,823	6,420	(1,156)	-	5,264
Expenses	3,194	35	-	3,229	19,778	-	-	19,778
Net Gain/Loss on Endowment and Discontinued Operations	279	2,148	2,256	4,683	(17,115)	(1,155)	(8,937)	(27,207)
Change in Net Assets	538	7,651	2,756	10,945	(20,747)	(6,364)	424	(26,687)
Net Assets, Beginning of Year:								
As previously stated	75,948	19,342	50,767	146,057	97,274	25,455	50,015	172,744
Net effect of change in accounting principle and endowment fund transfers	-	-	-	-	(579)	251	328	-
As restated	75,948	19,342	50,767	146,057	96,695	25,706	50,343	172,744
Net Assets, End of Year, Restated	$ 76,486	$ 26,993	$ 53,523	$ 157,002	$ 75,948	$ 19,342	$ 50,767	$ 146,057

See notes to consolidated financial statements

TAYLOR UNIVERSITY AND AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended May 31, 2010	Year Ended May 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 10,945	$ (26,687)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,382	4,653
Write down of facility costs due to appraised market value	2,254	6,859
Net (gain) loss on disposal of assets	256	31
Net (gain) loss on investments	(7,070)	15,925
Matured annuities	(252)	(966)
Annuity and trust actuarial change	1,805	1,363
Contributions received for facilities	(6,834)	(452)
Permanently restricted contributions	(1,699)	(1,599)
Change in:		
Student accounts receivable	160	(59)
Other accounts receivable	569	(819)
Inventories and other assets	(58)	458
Federal student loan funds	231	(228)
Accounts payable, accrued liabilities and expenses, and deposits and advances	(1,777)	2,272
Health insurance trust	(175)	599
Net Cash Provided by Operating Activities	1,737	1,350
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(7,295)	(6,519)
Proceeds from sale of property and equipment	23	13
Notes receivable awarded	(53)	(53)
Notes receivable collected	(37)	18
Purchase of investments	(24,450)	(24,124)
Proceeds from sale of investments	27,097	35,477
Net Cash Provided (Used) by Investing Activities	(4,715)	4,812

(continued)

See notes to consolidated financial statements

TAYLOR UNIVERSITY AND AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

(continued)

	Year Ended May 31, 2010	Year Ended May 31, 2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions receivable	(1,133)	990
Contributions received for facilities	6,834	452
Investment in endowment	1,699	1,599
Proceeds from new annuities	135	691
Change in revocable trust liability	(3)	(67)
Proceeds from new trusts	-	-
Bond issue cost changes	18	18
Change in deposits to external trustees	34	1,669
Proceeds from debt	-	-
Principal payments on debt	(813)	(1,198)
Net Cash Provided (Used) by Financing Activities	6,771	4,154
Change in Cash and Cash Equivalents	3,793	10,316
Cash and Cash Equivalents, Beginning of Year	10,902	586
Cash and Cash Equivalents, End of Year	$ 14,695	$ 10,902
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest (none capitalized)	$ 933	$ 981

See notes to consolidated financial statements

1. NATURE OF ORGANIZATION:

Taylor University (university) is a four year, private university. It was founded in 1846 and began operations as the Fort Wayne Female College in Fort Wayne, Indiana. It became co-educational in 1855 and was then called Fort Wayne College. The name was changed to Taylor University in 1890, and in 1893, the college was moved to Upland, Indiana. The university currently operates from its campus in Upland (TU), Indiana, and has operated a campus in Fort Wayne (FW), Indiana. See Note 13 for Fort Wayne campus information.

INCORPORATION AND AFFILIATES

The university is incorporated in the state of Indiana as a not-for-profit corporation. The university is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (code). As such, contributions by the public are deductible for income tax purposes. The university is not considered to be a private foundation. The university receives unrelated business income each year and annually files the appropriate tax returns but has not been required to pay any income tax related to this income. The university is supported by tuition and fees from students, charitable contributions, and government aid in the form of student financial aid. The university's affiliates include two 501(c)(3) corporations, William Taylor Foundation and Taylor University Broadcasting.

William Taylor Foundation (foundation)

The foundation was incorporated in 1933. The foundation's purposes are to receive property, real or personal, tangible, outright or in trust; to hold, invest, and manage any such property; and to distribute such property by way of grants, scholarships, and stipends for the direct or indirect benefit of the university and other nonprofit Evangelical Christian organizations. The foundation is a nonprofit organization exempt from federal and state income taxes under Section 501(c)(3) of the code. As such, contributions by the public are deductible for income tax purposes. The foundation is not considered a private foundation. It is supported primarily by contributions and by a fee paid by the university for fund-raising services provided.

WTF Real Estate, LLC (LLC)

LLC was created in 2005 by the foundation as a single-member limited liability company pursuant to the Indiana Business Flexibility ACT, as amended for the purpose of acquiring real property in furtherance of the foundation's charitable purpose. The foundation is the sole member of LLC. During 2005 the foundation conveyed and warranted certain real estate to LLC.

Taylor University Broadcasting (broadcasting)

Broadcasting was incorporated in 1996 and operates Christian radio stations in Northeast Indiana and West Central and Northwest Ohio. These stations provide a diverse menu of Christian programming designed to minister to the public at large in its broadcasting area. Local programs include: a daily talk show, music programs, numerous special features, plus the best of nationally known speakers. Broadcasting is a nonprofit organization exempt from federal and state income taxes under Section 501(c)(3) of the code. As such, contributions by the public are deductible for income tax purposes. Broadcasting is not considered a private foundation. Broadcasting receives unrelated business income each year and annually files the appropriate tax returns but has not been required to pay any income tax related to this income. The radio stations are supported primarily through contributions from its listening audience.

1. NATURE OF ORGANIZATION, continued:

INCORPORATION AND AFFILIATES, continued

Taylor Angel Fund (the fund)
The fund was created by the university in 2006 as a limited liability company pursuant to the Indiana Business Flexibility Act, with the university as the fund's managing member. Its purpose is to conduct any and all lawful business and activities for which limited liability companies may be organized under the Act. As of May 31, 2009, the fund did not have any assets and had not undertaken any activities.

ACCREDITATION
The university is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools, Indiana Professional Standards Board, National Council for Accreditation of Teacher Education, National Association of Schools of Music, and Council on Social Work Education.

MANAGEMENT
The business and financial affairs of the university are conducted by a board of trustees, including the president of the university. All the trustees are elected by the board, and no fewer than five are members of the alumni association of the university.

The business and financial affairs of the foundation are conducted by a board of directors, including the president of the university. All of the directors are elected, the majority are elected by the university board and the remaining are elected by the foundation board.

2. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the university are described below to enhance the usefulness of the consolidated financial statements to the reader. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS
The consolidated financial statements report amounts separately by class of net assets.

Unrestricted net assets are those without outside restrictions as follows:

Education and general operations:
Revenues and expenses for the principal educational mission and operations of the university and its affiliates.

Building and equipment reserves:
Board designated funds for future buildings and equipment replacements.

Quasi-endowment:
Board designated funds functioning as endowment, realized and unrealized gains, and reinvested income net of realized and unrealized losses.

Investment in plant assets:
Property and equipment, net of accumulated depreciation and related debt; gifts and income earned on unexpended balances for capital projects, which are currently under construction; and transfers from the operating budget to fund debt service requirements for outstanding bonds, notes, and mortgages payable. The university follows the policy of lifting the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets begin construction or are acquired.

Temporarily restricted net assets include gifts for which donor imposed restrictions for specific operating purposes, for the acquisition of property and equipment, or those with time restrictions, including charitable remainder trusts, which have not yet been met.

Permanently restricted net assets include those which are contributed with donor restrictions requiring that they be held in perpetuity. This includes amounts of accumulated net gains and funds to cover certain accumulated losses when required by contract or state law. This also includes endowment assets held in third party trusts which value fluctuates depending upon the market.

PRINCIPLES OF COMBINATION
The consolidated financial statements include the operations of the university, the foundation, LLC, and broadcasting. All significant intercompany transactions are eliminated.

CASH AND CASH EQUIVALENTS AND CREDIT RISKS
Cash and cash equivalents represent cash on hand, cash in checking and savings accounts, U.S. Treasury bills, and other cash equivalents with original maturities of three months or less that are not reported as investments. While the university's cash equivalent at times may exceed federally insured limits, the university has not experienced any losses on such accounts. The university believes it is not exposed to any significant credit risk on these accounts.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCOUNTS RECEIVABLE

Accounts receivable are reported net of any anticipated losses due to uncollectible accounts. The university's policy for determining when receivables are delinquent is when an account has not been paid within 90 days of the first due date billed. Uncollectible accounts are reported as additions to the allowance for bad debts when it is determined the amounts will become uncollectible, which is typically determined by management on a case by case analysis during and near the end of the fiscal year. The university assesses finance charges against student receivables that are past due 30 days or more, the greater of a $5 monthly late fee, or interest accrued at the rate of 13 percent per annum. The rate to outstanding accounts for those students who have converted their account balance to a note receivable is 15 percent per annum. The university's policy for placing receivables on nonaccrual status is when the accounts are sent to a collection agency. Payments received from nonaccrual receivables are received from collection agencies and credited to appropriate receivable accounts.

The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, and economic conditions. The allowance for uncollectible student accounts was $72,000 and $110,000 as of May 31, 2010 and 2009, respectively.

At May 31, 2010 and 2009, student accounts receivable past due 30 days or more and continuing to accrue interest totaled approximately $338,000 and $439,000, respectively. At May 31, 2010 and 2009, student accounts receivable once accruing interest but no longer accruing interest (nonaccrual) totaled approximately $143,000 and $240,000, respectively.

NOTES RECEIVABLE

Notes receivable for the loan fund were subject to certain estimates. The university loans assume a seven percent interest rate, seven year payoff on average after all deferments and payment time frames, monthly payments, and seven percent present value interest rate based on Star Financial Bank. An allowance for bad debts was not considered necessary for the years ended May 31, 2010 and 2009. The notes receivable balance as of May 31, 2010 and 2009, was approximately $204,000 and $114,000, respectively, of which approximately $54,000 and $17,000 was classified as the current portion of the notes receivable.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS, ENDOWMENT ASSETS, AND ANNUITY AND TRUST ASSETS

Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value with gains and losses reported in the consolidated statements of activities. Fair values are based on quoted market prices. Investments with no readily determinable market value are reported at fair value using estimated market value when no ready market exists. Estimated market value is based on reasonable valuation methodologies. Real property is initially reported at cost (if purchased) or fair value on the date of donation as determined by appraisals and thereafter at estimated fair value. Investments in the international equity fund, limited partnership is valued at the latest net asset value made available by the fund manager or administrator prior to the valuation date. Donated investments are recorded at fair value at the date of donation and thereafter carried in accordance with the above policies.

Trust investments consist of those held in trust, principally charitable remainder trusts, with the university serving as trustee. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the university's use. The portion of the trust attributable to the future interest of the university is reported as temporarily restricted or permanently restricted contributions (based upon the donor's intent) in the year the trust is established. On an annual basis, the university revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of approximately six percent and applicable mortality tables.

INVENTORIES

Inventories are reported at the lower of cost or market and consists substantially of books and related school supplies.

CONTRIBUTIONS RECEIVABLE (PROMISES TO GIVE)

Unconditional promises to give to the university are typically in writing and recognized as income of the university when made. Allowances are recorded for estimated uncollectible promises. Conditional promises to give are recognized as income to the university when the conditions are 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. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in gift income. Contributions receivable are reported at net realizable value, which approximates fair value.

DEPOSITS WITH EXTERNAL TRUSTEES

Deposits with external trustees consists of deposits with financing authorities to service debt for 2010 and 2009 (See Note 6). These deposits are invested in money market funds.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

FEDERAL STUDENT LOAN FUNDS RECEIVABLE AND PAYABLE

Federal student loan funds represent funds invested in the Federal Perkins loan program. As part of this program, the federal government contributes the majority of the funding with the institution contributing the balance. The federal contribution is carried as a liability because it is refundable upon closure of the program.

INVESTMENT IN PLANT AND DEPRECIATION

Property and equipment, gifted collections, and other capital assets are stated at cost at date of acquisition or fair value at date of gift. The university follows the practice of capitalizing all expenditures for property and equipment over $5,000 with a useful life in excess of one year. Gifted collections are not depreciated. Depreciation expense was $3,382,000 and $4,653,000 for the years ended May 31, 2010 and 2009, respectively. Depreciation expense is provided over the estimated useful lives of the assets on a straight-line basis. Useful lives are generally as follows:

Buildings	40-50 years
Campus improvements and furniture and fixtures	5-15 years
Library books (reported in furniture and fixtures)	25 years
Computer equipment and vehicles	3-5 years
Telephone system	5-10 years

BUILDING AND RETAINAGE PAYABLE

Building and retainage payable are reported as part of the accounts payable and accrued liabilities on the consolidated statements of financial position for the years ended May 31, 2010 and 2009, and were approximately $104,000 and $-0-, respectively. (See also Note 11.)

ANNUITIES PAYABLE AND CHARITABLE TRUSTS LIABILITIES

The liabilities for annuities, due other remaindermen, due trust beneficiary, and revocable trusts are reported using actuarially determined present values considering the income beneficiaries and applicable discount rates based upon federal tables. An actuarial adjustment is reported in the consolidated statements of activities for changes in the value. These amounts arise from planned giving instruments. Liabilities are reported for certain income payments that are payable to income beneficiaries and to amounts due remaindermen (other than the university).

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ASSET RETIREMENT OBLIGATIONS (ARO)
ARO are legal obligations associated with the retirement of long-lived assets. These liabilities are reported at estimated 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.

REVENUE, SUPPORT, RECLASSIFICATIONS, EXPENSES, AND FUNCTIONAL ALLOCATION OF EXPENSES
Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the university. Bequests are reported as support at the time the university has an established right to the bequest and proceeds are measurable.

The university reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. 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 consolidated statements of activities as net assets released from restrictions.

The university reports gifts of property 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 about how those 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.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the university have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Advertising costs are expensed when incurred and are included in the consolidated statements of activities. For the years ended May 31, 2010 and 2009, advertising expenses were approximately $188,000 and $239,000, respectively. The university incurred no joint costs for 2010 and 2009.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES
(See Note 12.)

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated 2009 financial statements to conform to the consolidated 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

3. INVESTMENTS:

Investments are presented as general investments, endowment assets, and annuity and trust assets.

Schedule of investment income (loss) (in thousands):

	Year Ended May 31,	
	2010	2009
Total investment income (loss)	$ 10,052	$ (12,939)

Custodial and management fees of approximately $468,000 and $519,000 for the years ended May 31, 2010 and 2009, respectively, have been netted against the above investment income. The amounts of investment income (loss) from investments other than debt securities and equity securities with readily determinable fair values was approximately $756,000 and ($3,306,000) for the years ended May 31, 2010 and 2009, respectively.

3. INVESTMENTS, continued:

Investments at fair value are as follows (in thousands):

	May 31, 2010	May 31, 2009
General Investments-Current:		
University:		
Cash and certificates of deposit	$ 6,718	$ 15,426
Cash surrender value of life insurance policies	472	455
Corporate stocks	1,500	1,237
Mutual funds	629	2,757
Bonds and government securities	10,039	7,855
Assets held in third party trust	-	3,235
Real estate	60	60
	19,418	31,025
Broadcasting:		
Cash and cash equivalents	322	222
Foundation:		
Real estate	-	120
Total general investments–current	$ 19,740	$ 31,367
Annuity and Trust Assets:		
University:		
Cash and cash equivalents	$ 248	$ 451
Corporate stocks	1,037	1,535
Bonds and government securities	1,863	1,850
Mutual funds	1,353	123
	4,501	3,959
Foundation and LLC:		
Cash and certificates of deposit	1,650	1,606
Corporate stocks	1,733	4,170
Mutual funds	4,213	687
Bonds and government securities	5,585	6,192
Mortgage receivable	-	156
Real property	338	338
	13,519	13,149
Total annuity and trust assets	$ 18,020	$ 17,108

3. INVESTMENTS, continued:

	Year Ended May 31, 2010	Year Ended May 31, 2009
Endowment assets:		
University:		
Cash and certificates of deposit	$ 8,111	$ 4,897
Corporate stocks	27,990	23,667
Bonds and government securities	21,285	17,210
International equity funds, LP/LLC	5,425	6,759
Real property	15	16
Contract receivable	9	10
FW campus–internal financing	-	2,605
TU managed for WTF–internal	(1,782)	(247)
Assets held in third party trusts	1,303	4,419
	62,356	59,336
Foundation:		
Cash and cash equivalents	-	570
Corporate stocks	231	291
Bonds and U.S. government securities	60	444
TU managed for WTF-internal	1,782	247
Mutual funds	-	57
	2,073	1,609
Less internal financing:		
FW note payable to endowment fund:		
See Note 13. Payments to be funded with proceeds from subsequent sale of Discontinued Operations.		
Annual payments (principal and interest at 6%) of $304,200 through 2014	-	(955)
Annual payments (principal and interest at 6%) of $304,200 from 2015 through 2021	-	(1,650)
Total endowment assets	$ 64,429	$ 58,340

4. CONTRIBUTIONS RECEIVABLE:

The university, foundation, and broadcasting have accepted contributions receivable restricted for plant fund, endowment fund, and restricted and unrestricted purposes. Contributions are due to be collected through 2012. Contributions receivable are recorded after discounting at 6 and 10.5 percent to the present value of the future cash flows as of May 31, 2010 and 2009, respectively.

Contributions receivable mature as follows (in thousands):

	May 31, 2010	May 31, 2009
Gross contributions receivable, due in:		
Less than one year	$ 2,201	$ 1,117
One to five years	345	113
More than five years	-	-
	2,546	1,230
Less unamortized discount	(163)	(98)
Less allowance for uncollectible amounts	(218)	(100)
Net reported contributions receivable	2,165	1,032
Less current portion	(1,579)	(911)
Contributions receivable–net of current portion	$ 586	$ 121

5. INVESTMENT IN PLANT, CONSTRUCTION IN PROGRESS, AND DISCONTINUED OPERATION FACILITIES:

The components of the investment in plant are as follows (in thousands):

	May 31, 2010	May 31, 2009
Gifted collections	$ 514	$ 514
Land *	2,397	1,984
Buildings	80,550	78,912
Campus improvements	4,969	4,855
Furniture and fixtures	11,579	12,792
Computer equipment	2,356	2,616
Telephone system	345	345
Vehicles	1,305	1,366
	104,015	103,384
Accumulated depreciation	(45,916)	(44,729)
	58,099	58,655
Construction in progress (Note 11)	4,302	2,039
Investment in plant and construction in progress, at cost-net	62,401	60,694
Discontinued operation facilities, at fair value	5,187	8,105
	$ 67,588	$ 68,799

*669 acres of land were purchased by the university in December of 2006 for future use. The property is adjacent to the northwest corner of the Upland campus. 80 acres of the total were permanently set aside in the land deed with university concurrence for arboretum purposes. The portion of the land can be managed for this purpose, but if not maintained by the university as an arboretum, the property set aside will be turned over to the Nature Conservancy as directed by the deed.

6. DEBT:

Debt is summarized as follows (in thousands):

	Amount Authorized	Balance at May 31, 2010	Balance at May 31, 2009	Annual Principal Payments	Matures Serially
TUBI-Grabill Bank Interest only thru 10/08 5 year loan based on 20 year amortization–6.25%	$ 500	$ 479	$ 493	$ 14	2007-2013
Housing and Auxiliary Facilities Bonds of 1970:					
Series B–3.00%	$ 1,355	60	120	60	1973-2010
Series D–3.00%	$ 1,631	261	326	65	1976-2013
Economic Development Revenue Bonds:					
Series 2002– 5.25%-6.25%	$ 6,495	6,115	6,175	60	2002-2033
Series 2003– 2.00%-5.00%	$ 8,825	6,445	6,810	380	2003-2022
Series 2007– 4.0%-5.125%	$ 4,315	3,515	3,765	255	2008-2032
		$ 16,875	$ 17,689	$ 834	

Following are debt maturities for the years ending May 31 (in thousands):

Year Ending,	
2010	$ 834
2011	625
2012	661
2013	1,175
2014	715
Thereafter	12,865
	$ 16,875

6. DEBT, continued:

DEBT COVENANTS

The trust indenture for the Housing and Auxiliary Facilities Bonds of 1970 requires a fixed sum deposit in addition to the current year's debt service. The total required for the principal and interest reserve account as of May 31, 2010 and 2009, was approximately $133,000 and $157,000, respectively. The rents and revenues from the operations of the pledged facilities are to be used first for the current operating expenses of these facilities, then the debt service requirement, and lastly for general institutional expenses.

The trust indenture for the Economic Development Revenue Bonds of 2002, 2003, and 2007 requires a deposit as a debt service reserve (see table below). The deposit was funded from the proceeds of the bond issue. The total requirements of principal and interest for the fiscal years ended May 31, 2010 and 2009 are stated in a table below. The trust indenture also stipulates that tuition and fees received by the university from the first 300 full-time students are pledged as collateral, and the university may not use such fees until the current year's debt service is satisfied.

Economic Development Revenue Bonds (in thousands):

	Deposit Required	May 31, 2010	May 31, 2009
2002	$ 520	$ 439	$ 438
2003	$ 680	$ 665	$ 667
2007	$ 249	$ 429	$ 745

Interest expense was approximately $934,000 and $1,018,000 for the years ended May 31, 2010 and 2009, respectively.

7. LINE OF CREDIT:

The board authorized short-term borrowing of $1,500,000 for the university and $100,000 for broadcasting to provide for current working capital. The university's line matures annually on October 31, and broadcasting's line matures annually. There were no draws during the fiscal years 2010 and 2009 and no outstanding draws as of May 31, 2010.

8. NET ASSETS:

Net assets consist of (in thousands):

	May 31, 2010	May 31, 2009
Unrestricted:		
Education and general operations	$ 4,888	$ 4,826
Board designated building and equipment reserves	11,314	12,849
Board designated quasi-endowments	9,571	7,162
Investment in plant assets and discontinued operation facilities–net of related debt	50,713	51,111
	76,486	75,948
Temporarily restricted:		
Charitable remainder unitrusts	371	524
Endowments	10,642	8,656
Purpose restricted funds	15,980	10,162
	26,993	19,342
Permanently restricted:		
Endowments	44,216	42,522
Permanently restricted loan funds	1,422	1,391
Other	7,885	6,854
	53,523	50,767
	$ 157,002	$ 146,057

ENDOWMENT

The university's endowment consists of approximately 415 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

The university's board of trustees has interpreted the Indiana State Prudent Management of Institutional Funds Act (ISPMIFA) allowing the returns of the endowment earnings to return to the permanently restricted nature of the endowment, including losses up to a prudent level as permitted by law absent explicit donor stipulations to the contrary. As a result of this interpretation, the university classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added or deducted from the fund.

8. NET ASSETS, continued:

INTERPRETATION OF RELEVANT LAW, continued
In accordance with ISPMIFA, the university would consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the university and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the university
(7) The investment policies of the university

Endowment net asset composition by type of fund as of May 31, 2010 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Endowment funds	$ 3,374	$ 199	$ 3,595	$ 7,168
Scholarships	1,059	7,874	22,412	31,345
Facilities	1,936	726	5,759	8,421
Programs	3,202	1,843	12,450	17,495
Less internal loans (Note 3)	-	-	-	-
	$ 9,571	$ 10,642	$ 44,216	$ 64,429

Endowment net asset composition by type of fund as of May 31, 2009 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Endowment funds	$ 2,825	$ 281	$ 2,608	$ 5,714
Scholarships	334	6,444	21,974	28,752
Facilities	4,385	527	5,507	10,419
Programs	2,223	1,404	12,433	16,060
Less internal loans (Note 3)	(2,605)	-	-	(2,605)
	$ 7,162	$ 8,656	$ 42,522	$ 58,340

All unrestricted net assets are board designated while temporarily restricted and permanently restricted net assets are donor-restricted.

8. NET ASSETS, continued:

Changes in endowment net assets for the year ended May 31, 2010 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 7,162	$ 8,656	$ 42,522	$ 58,340
Investment return:				
Investment income	1,989	-	-	1,989
Net depreciation (realized and unrealized)	2,609	101	3,644	6,354
Allocated for endowment purpose	(3,152)	-	-	(3,152)
Management fees	(413)	-	-	(413)
Third party managed endowment change	-	-	122	122
	1,033	101	3,766	4,900
Contributions	8	-	1,181	1,189
Transfers:				
UPMIFA adjustments:				
Funds with deficiencies (below) and historical gift value	1,368	1,885	(3,253)	-
Endowment net assets, end of year	$ 9,571	$ 10,642	$ 44,216	$ 64,429

8. NET ASSETS, continued:

Changes in endowment net assets for the year ended May 31, 2009 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 13,838	$ 17,526	$ 40,069	$ 71,433
Investment return:				
Investment income	1,745	-	-	1,745
Net depreciation (realized and unrealized)	(2,099)	1	(7,034)	(9,132)
Allocated for endowment purpose	(3,005)	-	-	(3,005)
Management fees	(439)	-	-	(439)
Third party managed endowment change	-	-	(3,263)	(3,263)
	(3,798)	1	(10,297)	(14,094)
Contributions	41	-	1,360	1,401
Transfers:				
UPMIFA adjustments:				
Funds with deficiencies (below) and historical gift value	(2,900)	(9,122)	12,022	-
UMIFA-2008 reversal (below)	960	-	(960)	-
Transfer to other funds	(979)	251	328	(400)
	(2,919)	(8,871)	11,390	(400)
Endowment net assets, end of year	$ 7,162	$ 8,656	$ 42,522	$ 58,340

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or ISPMIFA requires the university to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately $1,532,000 and $2,900,000 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

8. NET ASSETS, continued:

RETURN OBJECTIVES AND RISK PARAMETERS

The university has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the university must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The university expects its endowment funds, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, the university relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The university targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The university has a policy of appropriating for distribution each year five percent of its endowment fund's average fair value over the prior 36 months on a rolling basis. In establishing this policy, the university considered the long-term expected return on its endowment. Accordingly, over the long-term, the university expects the current spending policy to allow its endowment to grow at an average of seven percent annually. This is consistent with the university's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

9. EMPLOYEE BENEFITS:

HEALTH INSURANCE PLAN

The university has a self-insured employee health insurance plan (plan). The plan provides certain health and other benefits for eligible employees, retirees, and their beneficiaries covered by the plan. The health portion of the plan is reinsured through aggregate excess loss insurance (medical and dental) and specified excess loss insurance (medical). Aggregate excess loss insurance is set at 125 percent of expected claims per year. Maximum specific loss per person per year is $100,000, which is paid by the plan and limited to a specific lifetime benefit per person of $1,000,000. The university established the Taylor University Health Benefit Trust on July 1, 1993, to hold the plan's net assets. All contributions received by the plan come directly from the university, a part of which originates with retirees and former participants now on COBRA, as well as a part of which originates with employee premiums. Contributions to the plan are based on a per participant premium, which is determined by actual costs plus the desired level of funding. The university incurred employer contribution expenses of approximately $4,448,000 and $4,244,000 for the years ended May 31, 2010 and 2009, respectively. The university reported a liability to the plan of $2,365,000 and $2,555,000 as of May 31, 2010 and 2009, respectively.

RETIREMENT PLANS

The university's retirement plan covers all full time employees that meet the eligibility requirements in defined contribution plans known as the Teachers Insurance Annuity Association (TIAA) and the College Retirement Equities Fund (CREF). The annual contribution was approximately $2,188,000 and $2,209,000 for the years ended May 31, 2010 and 2009, respectively. The plan contributions are fully funded by the university.

During the year ending May 31, 2009, the university began a 457(b) deferred compensation plan for highly compensated employees of the university. This plan is an employer-sponsored non-qualified deferred compensation plan. This means that it is funded with contributions from the university. It has "unfunded" status (meaning the related assets are general assets of the university for purposes such as insolvency) although the university has chosen to informally fund it through TIAA-CREF. It is also referred to as a "top-hat" plan, or a Supplemental Executive Retirement Plan (SERP). As it is an unfunded plan, it is not subject to ERISA. In the event of insolvency, the participant will have rights to the assets only as a general creditor to the university. The university may invest contributions at their discretion, and the participant may direct the investments. Payments will be made upon retirement or to the beneficiary upon death of employee. Contributions by the university will not be taxable to the employee until distributions are made upon retirement (or death). Benefits will consist of the contributions made, and adjusted for any earnings, gains, or losses of the investment. The university contribution was approximately $-0- and $16,000 for the year ended May 31, 2010 and 2009, respectively.

10. CHANGE IN ACCOUNTING PRINCIPLE BASED ON CHANGE IN LAW AND DISCONTINUED OPERATION ENDOWMENT FUND NET ASSET TRANSFERS:

During the fiscal year 2009, the adoption of UPMIFA required the university to report all net earnings in excess of the historical dollar value that were previously reported in permanently restricted net assets to temporarily restricted net assets as these earnings are available to be used by the spending policy if needed. This is the $17,526,000 disclosed in Note 8 as the beginning balance in 2009 for temporarily restricted endowment net assets. Also, when the campus consolidation decision was made as disclosed in Note 13, it was determined the $579,000 of Fort Wayne unrestricted endowment funds should be reported as $251,000 temporarily restricted net assets and $328,000 permanently restricted net assets as of May 31, 2009, respectively.

11. COMMITMENTS:

PHYSICAL PLANT CONTRACTS

The university has outstanding construction and equipment contracts for pre-construction, construction, equipment, and facility repairs totaling approximately $26,890,000 and $3,971,000 as of May 31, 2010 and 2009, respectively.

OPERATING LEASES

The university has entered into several operating leases. Lease expenses were approximately $283,000 and $311,000 for the years ended May 31, 2010 and 2009, respectively.

Following are future minimum rental payments (in thousands):

Year Ending May 31,		
2011	$	206
2012		191
2013		129
2014		67
2015		51
	$	644

12. FAIR VALUES OF FINANCIAL INSTRUMENTS:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES
Effective June 1, 2008, the university adopted the new provisions of the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification. The new provisions have been applied prospectively as of the beginning of the year. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The university uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the university measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Level 1
Quoted prices in active markets for identical assets or liabilities.

Level 2
Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3
Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Level 1 Fair Value Measurements
Certificate of Deposits and Deposits with External Trustees
The carrying amount approximates fair value.

Corporate Stocks, Corporate Bonds and U.S. Government Securities, Assets Held in Third party Trust, and Mutual Funds
The fair values are based on quoted market prices in an active market and all are classified with in Level 1 of the valuation hierarchy, except for certain bonds, which are classified as Level 2. There are no Level 3 investments.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

Level 2 Fair Value Measurements

Bonds
The fair value of certain bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit-default swap spreads and volatility.

International Equity Funds, LP/LLC
Investments are valued at the latest net asset value made available by the fund manager or administrator prior to the valuation date.

Discontinued Operation Facilities
The fair value as determined by appraisal and net asset value after related consolidation costs and selling costs.

Real Estate
Fair value as determined by appraisals.

Contract Receivable and Mortgage Contracts
The fair values are based on the present value of estimated future cash flows.

Cash Surrender Value of Life Insurance Policies
The fair value is based on the university's share of the cash surrender value of the respective life insurance policy as represented by the insurance companies.

Asset Retirement Obligation
The fair value is based on reasonable discounted future cash flow obligations.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2010 and 2009, respectively (in thousands):

			Fair Value Measurements Using		
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
May 31, 2010:					
Assets:					
Investments:					
Cash and certificates of deposit	$	17,049	17,049		
Corporate stocks	$	32,491	32,491	-	-
Mutual funds	$	6,195	6,195	-	-
Bonds and U.S. securities	$	38,832	38,832	-	-
Int'l equity funds, LP/LLC	$	5,425	-	5,425	-
Real estate	$	413	-	413	-
Assets held in third party trusts	$	1,303	1,303	-	
Contract receivable	$	9	-	9	-
CSV of life insurance policies	$	472	-	472	-
Mortgage contracts	$	-	-	-	-
Discontinued operation facilities	$	5,187	-	5,187	-
Deposits with external trustees	$	1,912	1,912	-	-
Liabilities:					
Asset retirement obligations	$	164	-	164	-

12. FAIR VALUES OF FINANCIAL INSTRUMENTS, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

			Fair Value Measurements Using		
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
May 31, 2009:					
Assets:					
Investments:					
Cash and certificates of deposit	$	13,486	13,486		
Corporate stocks	$	30,900	30,900	-	-
Mutual funds	$	3,624	3,624	-	-
Bonds and U.S. securities	$	33,551	33,316	235	-
Int'l equity funds, LP/LLC	$	6,759	-	6,759	-
Real estate	$	534	-	534	-
Assets held in third party trusts	$	7,654	7,654	-	
Contract receivable	$	10	-	10	-
CSV of life insurance policies	$	455	-	455	-
Mortgage contracts	$	156	-	156	-
Discontinued operation facilities	$	8,105	-	8,105	-
Deposits with external trustees	$	1,946	1,946	-	-
Liabilities:					
Asset retirement obligations	$	186	-	186	-

13. CONSOLIDATION OF TAYLOR UNIVERSITY FORT WAYNE CAMPUS:

On October 13, 2008, the board of trustees decided to consolidate the undergraduate portion of the university's Fort Wayne campus with the university's Upland campus. The first obligation following this decision was to assure that current students on the Fort Wayne campus had a plan for completion of their degrees, which was accomplished. Two programs offered on both campuses will be consolidated with their accredited counterparts, Education and Social Work. One existing Fort Wayne program will be moved to the Upland campus, Professional Writing. Several other programs including a certificate program will be continued under the direction of the university.

The following expenses related to the decision to consolidate operations were approximated (in thousands) as follows:

	May 31,	
	2010	2009
Actual costs paid for consolidation	$ 1,646	$ 658
Accrual of remaining estimated consolidation costs	(1,707)	2,397
Write down of facility costs due to appraised market value (reduction of income)	2,483	6,859
Approximate negative impact on the decision to consolidate operations for the year:	$ 2,422	$ 9,914

DISCONTINUED OPERATIONS

Expenses for the year consist of:

	2010	2009
Approximate negative impact on the decision to consolidate operations (per above)	$ 2,422	$ 9,914
Fort Wayne campus operations	133	9,864
	$ 2,555	$ 19,778

14. TAYLOR UNIVERSITY BROADCASTING INCORPORATED (BROADCASTING) OPERATIONS:

Taylor University Broadcasting Incorporated started the ministry of Remedy.fm, an online radio station and ministry to youth. During the current fiscal year, the Board of Directors of Taylor University Broadcasting, Inc. decided to formally organize Remedy.fm as a separate legal entity named SoulMedic Media Group, Inc. This change is expected to be completed and the transfer to occur by September 30, 2010. Accordingly, the revenue and expenses of Remedy.fm is shown as discontinued operations for Taylor Broadcasting, Inc. due to this decision. Following is Remedy.fm's activity for the year ended May 31, 2010 (in thousands):

Operating expenses	$	488
Assets transferred to SoulMedic Media Group		119
Liability transferred to SoulMedic Media Group		67
	$	674

15. SUBEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated. There are no reportable events.

16. NEW ACCOUNTING PRONOUNCEMENTS:

ASC NO. 2010-06, Improving Disclosures about Fair Value Measurements

Effective for fiscal years beginning after December 15, 2009, ASC No. 2010-06 requires new fair value disclosures to show transfers into and out of level 1 and 2 fair value measurements and the reason for such transfers. Additionally, this update will require as part of the reconciliation for fair value measurements using significant unobservable inputs (Level 3), that a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

FASB Accounting Standards Update NO. 2009-12, Investment in Certain Entities That Calculate Net Asset Value Per Share (ASU 2009-12).

Effective for interim and annual periods ending after December 15, 2009, this update provides amendments to Subtopic *820-10, Fair Value Measurements and Disclosures—Overall*, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that does not have a readily determinable fair value on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820 .

16. NEW ACCOUNTING PRONOUNCEMENTS, continued:

ASC Topics 820-10-35, 50 and 55 (formerly FAS 157-4), "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased".

Effective for fiscal years ending after June 15, 2010, If the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), transactions or quoted prices may not be determinative of fair value (for example, there may be increased instances of transactions that are not orderly). Further analysis of the transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

CONSOLIDATING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Trustees
Taylor University and Affiliates
Upland, Indiana

Our report on our audits of the consolidated financial statements of Taylor University and Affiliates, as of and for the years ended May 31, 2010 and 2009, appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purposes of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on the following pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financials statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Capin Crouse LLP

Greenwood, Indiana
September 27, 2010

TAYLOR UNIVERSITY AND AFFILIATES

Consolidating Statement of Financial Position
(in thousands)

May 31, 2010

	University	Broadcasting	Foundation and LLC	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 11,788	$ 141	$ 2,766	$ 14,695
Student accounts receivable–net of allowance	409	-	-	409
Other accounts receivable	1,272	-	1	1,273
General investments	19,419	321	-	19,740
Inventories	585	-	-	585
Current portion of notes receivable	54	-	-	54
Current portion of contributions receivable	1,020	559	-	1,579
Affiliate net due to/from	2,768	9	(2,777)	-
Affiliate trust due to/from	4,386	36	(4,422)	-
Other assets	355	381	-	736
	42,056	1,447	(4,432)	39,071
Long-term assets:				
Bond issuance cost–net of amortization	374	-	-	374
Note receivable–net of current portion	124	-	26	150
Federal student loan funds receivable	2,987	-	-	2,987
Contributions receivable–net of	-	-	-	-
current portion	547	39	-	586
Deposits with external trustees	1,911	-	-	1,911
Investment in plant	65,919	1,211	458	67,588
Endowment assets	62,356	-	2,073	64,429
Annuity and trust assets	4,501	-	13,519	18,020
	138,719	1,250	16,076	156,045
Total Assets	$ 180,775	$ 2,697	$ 11,644	$ 195,116

(continued)

TAYLOR UNIVERSITY AND AFFILIATES

Consolidating Statement of Financial Position
(in thousands)

(continued)

May 31, 2010

	University	Broadcasting	Foundation and LLC	Total
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 622	$ 26	$ 4	$ 652
Accrued liabilities	1,194	68	2	1,264
Accrued salaries and wages	3,804	-	-	3,804
Student advance payments and deposits	288	-	-	288
Grant advance payments	893	-	(11)	882
Current portion of annuities and trusts	44	-	492	536
Current portion of debt	820	14	-	834
	7,665	108	487	8,260
Long-term and other liabilities:				
Debt–net of current portion	15,576	465	-	16,041
Liability for federal student loan funds and asset retirement obligations	2,790	-	-	2,790
Annuities payable–net of current portion	187	-	3,689	3,876
Charitable trusts:				
Due other remaindermen	485	-	-	485
Due trust beneficiary	653	-	2,714	3,367
Revocable trusts	17	-	898	915
Health insurance trust	2,380	-	-	2,380
	22,088	465	7,301	29,854
Total liabilities	29,753	573	7,788	38,114
Net assets:				
Unrestricted	73,001	2,127	1,358	76,486
Temporarily restricted	27,029	(35)	(1)	26,993
Permanently restricted	50,992	32	2,499	53,523
Total net assets	151,022	2,124	3,856	157,002
Total Liabilities and Net Assets	$ 180,775	$ 2,697	$ 11,644	$ 195,116

TAYLOR UNIVERSITY AND AFFILIATES

Consolidating Statement of Financial Position
(in thousands)

May 31, 2009

	University	Broadcasting	Foundation and LLC	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 9,273	$ 156	$ 1,473	$ 10,902
Student accounts receivable–net of allowance	569	-	-	569
Other accounts receivable	1,654	1	187	1,842
General investments	21,339	222	120	21,681
Inventories	578	-	-	578
Current portion of notes receivable	17	-	-	17
Current portion of contributions receivable	305	606	-	911
Affiliate net due to/from	1,273	(17)	(1,256)	-
Affiliate trust due to/from	4,368	36	(4,404)	-
Other assets	301	384	-	685
	39,677	1,388	(3,880)	37,185
Long-term assets:				
Bond issuance cost–net of amortization	392	-	-	392
Note receivable–net of current portion	97	-	-	97
Federal student loan funds receivable	3,067	-	-	3,067
Contributions receivable–net of current portion	121	-	-	121
Deposits with external trustees	1,946	-	-	1,946
Investment in plant	66,607	1,516	676	68,799
Endowment assets	56,731	-	1,609	58,340
Annuity and trust assets	3,959	-	13,149	17,108
	132,920	1,516	15,434	149,870
Total Assets	$ 172,597	$ 2,904	$ 11,554	$ 187,055

(continued)

TAYLOR UNIVERSITY AND AFFILIATES

Consolidating Statement of Financial Position
(in thousands)

(continued)

May 31, 2009

	University	Broadcasting	Foundation and LLC	Total
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 565	$ 27	$ 27	$ 619
Accrued liabilities	2,789	(249)	-	2,540
Accrued salaries and wages	4,105	15	-	4,120
Student advance payments and deposits	816	-	-	816
Grant advance payments	575	-	(3)	572
Current portion of annuities and trusts	40		512	552
Current portion of debt	800	12	-	812
	9,690	(195)	536	10,031
Long-term and other liabilities:				
Debt–net of current portion	16,396	481	-	16,877
Liability for federal student loan funds and asset retirement obligations	2,638	-	-	2,638
Annuities payable–net of current portion	125	-	4,276	4,401
Charitable trusts:				
Due other remaindermen	487	-	266	753
Due trust beneficiary	532	-	2,293	2,825
Revocable trusts	17	-	901	918
Health insurance trust	2,555	-	-	2,555
	22,750	481	7,736	30,967
Total liabilities	32,440	286	8,272	40,998
Net assets:				
Unrestricted	72,379	2,592	977	75,948
Temporarily restricted	18,875	(6)	473	19,342
Permanently restricted	48,903	32	1,832	50,767
Total net assets	140,157	2,618	3,282	146,057
Total Liabilities and Net Assets	$ 172,597	$ 2,904	$ 11,554	$ 187,055

TAYLOR UNIVERSITY AND AFFILIATES

Consolidating Statement of Activities
(in thousands)

Year Ended May 31, 2010

	University	Broadcasting	Foundation and LLC	Total
REVENUE:				
Educational and general:				
Tuition and fees–net	$ 34,831	$ -	$ -	$ 34,831
Government appropriations	680	-	-	680
Gifts	10,499	1,723	43	12,265
Investment income (loss)	3,651	1	1,500	5,152
Other sources	2,543	374	(52)	2,865
Transfers	(150)	-	150	-
Auxiliary enterprises	12,731	-	-	12,731
Total Revenue	64,785	2,098	1,641	68,524
EXPENSES AND LOSSES:				
Program services:				
Educational and general:				
Instruction	20,096	-	-	20,096
Academic support	6,477	-	-	6,477
Student affairs	10,725	-	-	10,725
Research	404	-	-	404
Public service	693	2,095	-	2,788
Auxiliary enterprises	10,982	-	-	10,982
Supporting activities:				-
Fund-raising	1,967	146	-	2,113
Institutional support	7,589	-	1,088	8,677
Total Expenses	58,933	2,241	1,088	62,262
Change in Net Assets Prior to Endowment and Discontinued Operations	5,852	(143)	553	6,262
ENDOWMENT:				
Gifts	1,173	-	16	1,189
Investment income (loss)	4,895	-	5	4,900
DISCONTINUED OPERATIONS:				
Revenues	1,500	323	-	1,823
Expenses	2,555	674	-	3,229
Net Loss on Endowment and Discontinued Operations	5,013	(351)	21	4,683
Change in Net Assets	10,865	(494)	574	10,945
Net Assets, Beginning of Year	140,157	2,618	3,282	146,057
Net Assets, End of Year	$ 151,022	$ 2,124	$ 3,856	$ 157,002

TAYLOR UNIVERSITY AND AFFILIATES

Consolidating Statement of Activities
(in thousands)

Year Ended May 31, 2009

	University	Broadcasting	Foundation and LLC	Total
REVENUE:				
Educational and general:				
Tuition and fees–net	$ 33,287	$ -	$ -	$ 33,287
Government appropriations	550	-	-	550
Gifts	5,110	1,887	225	7,222
Investment income (loss)	2,949	5	(1,606)	1,348
Other sources	3,118	160	(275)	3,003
Transfers	-	-	-	-
Auxiliary enterprises	11,922	-	-	11,922
Total Revenue	56,936	2,052	(1,656)	57,332
EXPENSES AND LOSSES:				
Program services:				
Educational and general:				
Instruction	18,824	-	-	18,824
Academic support	5,599	-	-	5,599
Student affairs	10,278	-	-	10,278
Research	675	-	-	675
Public service	419	2,273	-	2,692
Auxiliary enterprises	10,475	-	-	10,475
Supporting activities:				-
Fund-raising	2,003	186	-	2,189
Institutional support	6,083	(250)	247	6,080
Total Expenses	54,356	2,209	247	56,812
Change in Net Assets Prior to Endowment and Discontinued Operations	2,580	(157)	(1,903)	520
ENDOWMENT:				
Gifts	1,401	-	-	1,401
Investment income (loss)	(14,094)	-	-	(14,094)
DISCONTINUED OPERATIONS:				
Revenues	5,264	-	-	5,264
Expenses	19,778	-	-	19,778
Net Gain (Loss) on Endowment and Discontinued Operations	(27,207)	-	-	(27,207)
Change in Net Assets	(24,627)	(157)	(1,903)	(26,687)
Net Assets, Beginning of Year	164,784	2,775	5,185	172,744
Net Assets, End of Year	$ 140,157	$ 2,618	$ 3,282	$ 146,057

TAYLOR UNIVERSITY AND AFFILIATES

Schedule of Investment in Plant and Construction in Progress
(in thousands)

For the Year Ended May 31, 2010

	May 31, 2009	Fort Wayne Campus Additions	Broadcasting Additions	Upland Campus Additions Completed CIP	Foundation Additions	Removals, Including Discontinued Operations	May 31, 2010	Accumulated Depreciation	Net Value May 31, 2010
Combined Campuses:									
Land	$ 2,143	$ 332	$ -	$ -	$ 296	$ 215	$ 2,556	$ -	$ 2,556
Buildings	91,612	2,348	-	-	-	2,878	91,082	38,435	52,647
Campus improvements	5,033	237	-	-	-	150	5,120	2,696	2,424
Furniture and fixtures	14,456	1,087	-	-	-	3,964	11,579	7,820	3,759
Computer equipment	3,204	134	-	-	-	394	2,944	2,113	831
Telephone system	345	-	-	-	-	-	345	121	224
Auto equipment	1,366	170	-	-	-	231	1,305	994	311
							-		
Construction in progress:							-		
Upland projects	2,039	2,987	-	-	-	724	4,302	-	4,302
							-		
Construction planning:							-		
Upland projects	-	-	-	-	-	-	-	-	-
TUBI projects	-	-	-	-	-	-	-	-	-
							-		
Gifted collections	534	-	-	-	-	-	534	-	534
	$ 120,732	$ 7,295	$ -	$ -	$ 296	$ 8,556	$ 119,767	$ 52,179	$ 67,588

TAYLOR UNIVERSITY AND AFFILIATES

Schedule of Gift Income
(in thousands)

For the Year Ended May 31, 2010

	University	Foundation	Broadcasting	2010 Total	2009 Total
Current Funds:					
Unrestricted	$ 2,722	$ 19	$ 1,722	$ 4,463	$ 3,829
Restricted for:					
Donor designated projects	793	-	307	1,100	2,946
Student aid	186	-	-	186	869
T.W.O	-	-	-	-	-
	3,701	19	2,029	5,749	7,644
Endowment Funds:					
Unrestricted	8	-	-	8	41
Restricted	1,165	16	-	1,181	1,429
	1,173	16	-	1,189	1,470
Annuities/Life Agreements	15	25	-	40	137
Campaign:					
Other campaigns	5,768	-	-	5,768	452
Change in pledged gifts	1,066	-	-	1,066	(511)
	6,834	-	-	6,834	(59)
Total Gift Income	$ 11,723	$ 60	$ 2,029	$ 13,812	$ 9,192
Reconciliation to Consolidated Statement of Activities:					
Gifts				$ 12,265	$ 7,222
Endowment gifts				1,189	1,401
Gifts reported as part of discontinued operations revenues				358	569
Total Gift Income				$ 13,812	$ 9,192

TAYLOR UNIVERSITY

Board of Trustees
2009 - 2010

MEMBERS OF BOARD OF TRUSTEES
(continued)

OFFICES AND COMMITTEES