

**UNIVERSITY
OF MIAMI**



FINANCIAL STATEMENTS

Fiscal years ended MAY 31, 2007 and 2006

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
University of Miami

We have audited the accompanying statements of financial position of the University of Miami (the University) as of May 31, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 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.

McGladrey & Pullen, LLP

Fort Lauderdale, Florida
August 3, 2007

UNIVERSITY OF MIAMI
STATEMENTS OF FINANCIAL POSITION
As of May 31, 2007 and 2006
(in millions)

Assets	2007	2006
Cash and cash equivalents	\$ 233.7	\$ 146.8
Accounts and loans receivable	184.6	175.6
Contributions receivable	108.9	104.7
Other assets	42.4	38.5
Investments	1,293.8	1,073.3
Property and equipment	1,025.9	904.5
Trusts held by others	51.4	59.5
Total Assets	\$ 2,940.7	\$ 2,502.9
Liabilities		
Accounts payable and accrued expenses	\$ 133.9	\$ 116.1
Deferred revenues and other deposits	73.8	64.7
Other liabilities	203.6	161.0
Actuarial liability of annuities payable	10.5	10.4
Reserves for medical self-insurance	62.7	66.0
Government advances for student loans	24.2	24.0
Bonds and notes payable	613.2	457.8
Total Liabilities	1,121.9	900.0
Net Assets		
Unrestricted:		
Operations, programs, facilities expansion, and student loans	404.3	248.2
Invested in facilities	448.1	500.5
Endowment and similar funds	450.5	359.7
Total unrestricted net assets	1,302.9	1,108.4
Temporarily restricted:		
Gifts for programs and facilities expansion	51.9	58.1
Contributions (pledges) and trusts	105.7	117.3
Life income and annuity funds	12.9	11.4
Endowment and similar funds	29.1	28.7
Total temporarily restricted net assets	199.6	215.5
Permanently restricted:		
Contributions (pledges) and trusts	54.6	46.9
Endowment and similar funds	261.7	232.1
Total permanently restricted net assets	316.3	279.0
Total Net Assets	1,818.8	1,602.9
Total Liabilities and Net Assets	\$ 2,940.7	\$ 2,502.9

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

UNIVERSITY OF MIAMI
STATEMENTS OF ACTIVITIES
For the years ended May 31, 2007 and 2006
(in millions)

	2007	2006
Changes in unrestricted net assets		
Operating activities		
Operating revenues		
Tuition and fees, net	\$ 344.2	\$ 329.0
State appropriation-School of Medicine	16.2	10.4
Grants and contracts	400.5	386.6
Gifts and trusts	55.0	55.9
Net assets released from restrictions	29.0	19.4
Endowment spending distribution	28.3	24.5
Investment return	26.0	21.4
Auxiliary enterprises, net	92.2	78.7
Medical professional practice	313.8	259.0
Hospitals and clinics	287.6	248.5
Other sources	23.2	20.2
Total operating revenues	1,616.0	1,453.6
Operating expenses		
Instruction	353.4	315.1
Research	172.7	167.7
Public service	136.3	129.9
Academic support	108.8	95.0
Student services	39.0	33.9
Institutional support	82.2	78.9
Auxiliary enterprises	127.2	103.6
Patient care	533.0	435.9
Total operating expenses	1,552.6	1,360.0
Change in unrestricted net assets from operating activities	63.4	93.6
Non-Operating activities		
Revenues and other additions		
Endowment, annuity and other investment return	136.4	62.0
Gifts and trusts	8.0	.8
Other sources	.2	-
Net assets released from restrictions	9.2	6.8
Transfer to permanently restricted net assets	(.5)	(2.1)
Total non-operating income	153.3	67.5
Expenses and other deductions		
	2.3	.6
Change in unrestricted net assets from non-operating activities	151.0	66.9
Minimum pension liability	(6.8)	6.7
Loss on early extinguishment of debt	(13.1)	-
Cumulative effect of change in accounting principle	-	(3.4)
Increase in unrestricted net assets	194.5	163.8
Changes in temporarily restricted net assets		
Endowment, annuity and other investment return	2.0	1.2
Gifts and trusts	24.0	48.9
Net assets released from restrictions	(38.2)	(26.2)
Transfer to permanently restricted net assets	(5.8)	(.3)
Changes in value of annuities payable and trusts held by others	2.1	2.6
(Decrease) increase in temporarily restricted net assets	(15.9)	26.2
Changes in permanently restricted net assets		
Endowment, annuity and other investment return	2.1	1.1
Gifts and trusts	28.9	27.0
Transfer from unrestricted and temporarily restricted net assets	6.3	2.4
Increase in permanently restricted net assets	37.3	30.5
Increase in total net assets	215.9	220.5
Net Assets		
Beginning of year	1,602.9	1,382.4
End of year	\$ 1,818.8	\$ 1,602.9

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

UNIVERSITY OF MIAMI
STATEMENTS OF CASH FLOWS
For the years ended May 31, 2007 and 2006
(in millions)

	2007	2006
Cash flows from operating activities		
Increase in total net assets	\$ 215.9	\$ 220.5
Adjustments to reconcile increase in total net assets to net cash provided by operating activities		
Net realized and unrealized investment gains	(158.2)	(77.7)
Gifts and trusts	(46.4)	(52.4)
Depreciation and amortization	75.2	67.2
Provision for doubtful accounts	33.6	29.6
Net loss on sale, disposal of real estate and plant assets	2.3	.6
Present value adjustment on annuities payable and trusts held by others	(2.1)	(2.6)
Amortization of bond premiums	(.1)	-
Loss on early extinguishment of debt	13.1	-
Cumulative effect of change in accounting principle	-	3.4
Change in operating assets and liabilities		
(Increase) decrease in		
Accounts and loans receivable	(46.8)	(30.6)
Other assets	(11.4)	(10.3)
Increase (decrease) in		
Accounts payable and accrued expenses	17.8	11.8
Deferred revenues, annuities payable and other liabilities	56.4	28.5
Reserves for medical self-insurance	(3.3)	(7.9)
Government advances for student loans	.2	.5
Net cash provided by operating activities	146.2	180.6
Cash flows from investing activities		
Purchases of investments	(368.1)	(430.3)
Proceeds from the sales and maturities of investments	312.8	492.2
Capital expenditures for property and equipment	(218.1)	(188.0)
Proceeds from sale of real estate	27.1	-
Student loans issued	(59.1)	(66.5)
Proceeds from collections of student loans	63.3	60.6
Net cash used in investing activities	(242.1)	(132.0)
Gifts for plant expansion and endowment	39.0	29.6
Proceeds from the issuance of debt	547.9	9.3
Call premium on bonds	(1.4)	-
Premium paid on extinguishment of debt	(10.3)	-
Payments to retire or defease bonds and notes payable	(392.4)	(52.9)
Net cash provided by (used in) financing activities	182.8	(14.0)
Cash and cash equivalents		
Net increase	86.9	34.6
Beginning of year	146.8	112.2
End of year	\$ 233.7	\$ 146.8

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

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The University of Miami (the University) is a major private not-for-profit research university located in South Florida. Its mission is to educate and nurture students, to create knowledge through innovative research programs, and to provide service to our community and beyond by pursuing excellence in health care.

Basis of Presentation

The financial statements of the University, including its hospitals and clinics, have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America for not-for-profit organizations.

The three net asset categories as reflected in the accompanying financial statements are as follows:

- **Unrestricted** - Net assets which are free of donor-imposed restrictions. It includes the University's investment in property and equipment and amounts designated by management for support of operations, programs, and facilities expansion. The University has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the University and, therefore, the University's policy is to record these net assets as unrestricted. This category includes all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. It also includes realized and unrealized gains on endowment and other long-term investments, even though the University's policy is to reinvest such earnings for future growth and to use these earnings in accordance with donor stipulations as to the original gift corpus.

Unrestricted non-operating activities reflect transactions of a long-term investment or capital nature including net realized and unrealized investment gains not used to support current operations as well as contributions to be used for facilities and equipment.

- **Temporarily Restricted** - Net assets whose use by the University is limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. These net assets are available for program purposes, i.e., education, research, public service, and scholarships, as well as for buildings and equipment.
- **Permanently Restricted** - Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. These net assets are invested in perpetuity, the income from which is expended for program purposes, i.e., education, research, public service, and scholarships.

Use of Estimates

The preparation of these financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Income Taxes

The University is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

Investments

Investments are stated at fair value, based primarily on market quotes. Certain of the limited partnership investments, primarily the private equity interests, are recorded at estimated fair values, adjusted for cash receipts, cash disbursements, and securities distributions through May 31 as reviewed and evaluated by the University with assistance from its investment consultant. In some instances, those changes in value may require use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for the investments existed.

The University's investments include various types of investment securities which are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Revenue Recognition

Tuition and fees revenue is reported in the fiscal year in which educational programs are primarily conducted. Scholarships and fellowships awarded to students for tuition, fees, and room and board are based upon need and merit, and are netted against tuition and other fees, and auxiliary enterprises revenue in the statements of activities as follows (in millions):

	<u>2007</u>	<u>2006</u>
Scholarships and fellowships:		
Institutionally funded	\$ 119.1	\$ 111.3
Externally funded – gifts and grants	<u>8.1</u>	<u>7.4</u>
Total amount netted against tuition and fees revenue	<u>\$ 127.2</u>	<u>\$ 118.7</u>
Amount netted against auxiliary enterprises revenue	<u>\$ 8.1</u>	<u>\$ 8.0</u>

Gifts of cash, property and marketable securities are recorded as revenue when received. Unconditional pledges (note 3) are recognized as revenue based on the estimated present value of the future cash flows, net of allowances, when the commitment is received. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Conditional pledges are recorded as revenue only when donor stipulations are substantially met.

Grants and contracts revenue is recognized as expenses are incurred.

Medical professional practice, and hospitals and clinics revenue (patient care revenue) are recorded net of contractual adjustments, discounts and allowances, and include amounts estimated by management to be paid by third-party governmental and private payors.

Revenue received before it is earned is deferred.

Annuities Payable and Trusts Held by Others

Certain gift annuities, charitable lead and remainder annuity trust agreements have been entered into with donors. Assets held under these agreements are valued at either fair value or the present value of expected cash flows. These assets are included in trusts held by others on the statements of financial position, except for gift annuities which are included in investments. Gift annuities included in investments totaled \$23.2 and \$21.5 million at May 31, 2007 and 2006, respectively. Generally, revenue from gift annuities and trusts is recognized at the date the agreements are established after recording liabilities for the present value of the estimated future payments to donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES
(Continued)

Annuities Payable and Trusts Held by Others (continued)

The University is also the beneficiary of certain perpetual trusts which are also included in trusts held by others on the statements of financial position. The present values of the estimated future cash receipts from the trusts or the fair value of the assets held in the trust are recognized as assets and gift and trust revenue as of the date the University is notified of the establishment of the trust. Distributions from the trusts are recorded as gift and trust revenue, and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Medical School

Faculty physicians, in addition to teaching and conducting research, engage in the practice of medicine, which generates patient care revenue. Revenues and expenses, including compensation and administrative operations from the practice of medicine, are reflected as University revenues and expenses. The net assets of patient care activities are designated for medical school programs.

The University and the Public Health Trust of Miami-Dade County, Florida (PHT), owner and operator of Jackson Memorial Hospital (JMH), have entered into an affiliation agreement related to their independent missions within the designated land and facilities that comprise the Jackson Memorial Medical Center. Pursuant to that agreement, the PHT provides clinical facilities for the teaching of the University's medical students. Medical education of its students is the sole responsibility of the University. In addition, the University has agreed to permit its faculty to apply for privileges at JMH to train and supervise JMH house staff (interns, residents, and fellows) and to treat hospital patients in their capacity as members of JMH's attending medical staff. All such treatment and training is the sole responsibility of the PHT in its capacity as the legal owner and operator of the Jackson Health System's public hospitals and clinics and its statutory teaching hospital (JMH). The affiliation agreement provides the terms for the mutual reimbursement of services provided.

Insurance

The University manages property and liability risks through a combination of commercial insurance policies and self-insurance.

The University is self-insured for medical professional liability and hospital liability and maintains commercial excess loss coverage within specified limits. Provisions for medical professional liability claims and related costs are based on several factors, including an annual actuarial study using a discount rate of 5% as of May 31, 2007 and 2006.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Depreciation is not recorded on land and art objects. Leasehold improvements are amortized over the lesser of the lease term or the useful life.

Facilities and Administrative Cost Recovery

The Federal government reimburses the University for facilities and administrative costs incurred in connection with research grants and contracts based on predetermined rates through 2009. Facilities and administrative cost recovery from government and private sources included in grant and contract revenues totaled \$49.6 and \$50.5 million during the years ended May 31, 2007 and 2006, respectively.

Reclassifications

Certain reclassifications have been made to the comparative information for the year ended May 31, 2006, to conform to the presentation for the year ended May 31, 2007.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

Facilities Expenses

Facilities related expenses have been allocated across applicable functional expense categories in the statements of activities based on space usage (in millions):

	<u>2007</u>	<u>2006</u>
Depreciation and amortization	\$ 75.2	\$ 67.2
Interest	19.7	14.4
Operations and maintenance	<u>96.8</u>	<u>73.6</u>
Total	<u>\$ 191.7</u>	<u>\$ 155.2</u>

Accounting Change due to New Pronouncement and Impact of Future Accounting Standards

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" (FIN 47). This Interpretation states that a legal obligation to perform an asset retirement activity is a liability even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an entity. Accordingly, a liability must be recorded for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The University adopted FIN 47 during fiscal year 2006 and reflected a \$3.4 million charge which is reported as a "Cumulative effect of change in accounting principle" in the statements of activities. The liability for conditional asset retirement obligations was \$4.5 and \$4.4 million at May 31, 2007 and 2006, respectively. Pro forma effects of retroactively applying FIN 47 (as if it had been applied for all years reported) are as follows (in millions):

Pro forma increase in total net assets for the year ended May 31, 2006	\$ 223.9
Pro forma asset retirement obligations as of May 31, 2006	\$ 4.4

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132(R)" (SFAS 158). SFAS 158 requires that an employer sponsoring one or more single-employer defined benefit plans must recognize an asset or a liability in its statement of financial position for the plan's overfunded or underfunded status. SFAS 158 also requires an employer to recognize the actuarial gains or losses and prior service costs or credits in the statements of activities that arise during the period but are not components of net periodic benefit cost pursuant to SFAS 87 and 106. The University will be required to adopt SFAS 158 in fiscal year 2008.

In addition, SFAS 158 requires an employer to measure a defined benefit plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year and recognize changes in the funded status of a defined benefit plan through changes in unrestricted net assets in the year in which the change occurs. This provision is not required to be adopted by the University until the year ending May 31, 2009.

2. ACCOUNTS AND LOANS RECEIVABLE

At May 31, accounts and loans receivable consist of the following (in millions):

	<u>2007</u>	<u>2006</u>
Accounts receivable, net:		
Patient care	\$ 91.9	\$ 88.8
Student	4.2	3.6
Grants, contracts and other	50.5	40.9
Student loans, net	<u>38.0</u>	<u>42.3</u>
Total	<u>\$ 184.6</u>	<u>\$ 175.6</u>

Accounts and student loans receivable are net of allowances for doubtful accounts of \$33.8 and \$.6 million, respectively, for 2007 and \$33.2 and \$.8 million, respectively, for 2006.

Student loans are made primarily pursuant to federal programs and availability of funding. The related receivables have significant government restrictions as to marketability, interest rates, and repayment terms. Their fair value is not readily determinable.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

3. CONTRIBUTIONS RECEIVABLE (PLEDGES)

Unconditional pledges are recorded at the present value of their future cash flows using a discount rate commensurate with the risk involved. They are expected to be realized in the following periods at May 31, (in millions):

	<u>2007</u>	<u>2006</u>
In one year or less	\$ 37.7	\$ 32.0
Between one year and five years	41.1	46.8
More than five years	<u>73.8</u>	<u>73.3</u>
	152.6	152.1
Discount of \$32.5 and allowance of \$11.2 for 2007 and \$34.5 and \$12.9 for 2006, respectively	<u>(43.7)</u>	<u>(47.4)</u>
Total	<u>\$ 108.9</u>	<u>\$ 104.7</u>

4. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation and amortization at May 31 consist of the following (in millions):

	<u>Useful Lives</u>	<u>2007</u>	<u>2006</u>
Land	-	\$ 58.1	\$ 57.6
Land improvements	20 years	60.6	46.7
Buildings and building improvements	8 to 50 years	980.8	796.1
Leasehold improvements	1 to 50 years	22.3	22.0
Construction in progress	-	106.2	180.4
Moveable equipment	3 to 20 years	342.4	360.6
Library materials	12 years	94.5	87.9
Art objects	-	<u>42.1</u>	<u>35.3</u>
		1,707.0	1,586.6
Accumulated depreciation and amortization		<u>(681.1)</u>	<u>(682.1)</u>
Total		<u>\$ 1,025.9</u>	<u>\$ 904.5</u>

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. Total net interest expense of \$1.5 and \$7.1 million was capitalized for the years ended May 31, 2007 and 2006, respectively.

5. INVESTMENTS

Investments at May 31 consist of the following (in millions):

	<u>2007</u>	<u>2006</u>
Short term investments	\$ 196.5	\$ 125.9
U.S. government obligations	9.7	16.6
Corporate bonds	-	9.8
Publicly traded stocks	215.8	180.2
Mutual funds:		
Equities	125.0	113.0
Fixed Income	85.0	80.7
Limited partnerships		
Equities	314.7	250.0
Fixed income	95.2	85.3
Private equity	36.7	31.3
Other	203.6	149.0
Other investments	<u>11.6</u>	<u>31.5</u>
Total fair value	<u>\$ 1,293.8</u>	<u>\$ 1,073.3</u>
Total cost	<u>\$ 1,090.7</u>	<u>\$ 984.5</u>

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

5. INVESTMENTS (Continued)

Short term investments consist primarily of commercial paper with maturities in excess of three months. Included in investments at May 31, 2007 is \$146.1 million of unspent project funds related to the issuance of the 2007 bonds. Amounts included in limited partnerships, other, represent marketable alternative investments. The majority of investments are combined in investment pools with each individual account subscribing to or disposing of shares on the basis of the fair value per share. At May 31, 2007 and 2006, the primary investment pool fair value amounted to \$1,033.2 and \$875.9 million, with a cost basis of \$837.8 and \$791.0 million, respectively. The primary investment pool is managed by multiple investment managers with asset allocation per the University's investment policy. The total net unrealized gain on investments for the years ended May 31, 2007 and 2006 was \$114.7 and \$36.8 million, respectively.

The University's policy is to distribute five percent of the three-year moving average fair market value of the investment pool. This policy is designed to protect the purchasing power of the endowment and to minimize the effect of capital market fluctuations on operating budgets.

The components of total investment return as reflected in the statements of activities are as follows (in millions):

	<u>2007</u>	<u>2006</u>
Operating:		
Endowment spending distribution	\$ 28.3	\$ 24.5
Investment return	<u>26.0</u>	<u>21.4</u>
Total operating investment return	<u>54.3</u>	<u>45.9</u>
Non-Operating:		
Unrestricted		
Endowment interest and dividend income, realized and unrealized gains, net of endowment spending distribution	91.7	41.0
Other net realized and unrealized gains	<u>44.7</u>	<u>21.0</u>
Total unrestricted non-operating investment return	136.4	62.0
Temporarily restricted investment return	2.0	1.2
Permanently restricted investment return	<u>2.1</u>	<u>1.1</u>
Total non-operating investment return	<u>140.5</u>	<u>64.3</u>
Total investment return	<u>\$ 194.8</u>	<u>\$ 110.2</u>

6. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The University has two non-contributory retirement plans covering substantially all employees, the Employee Retirement Plan and the Faculty Retirement Plan. The University also sponsors an unfunded, defined benefit postretirement health plan that covers all full-time and part-time regular employees who elect coverage and satisfy the plan's eligibility requirements when they retire. The plan is contributory with retiree contributions established as a percentage of the total cost for retiree health care and for the health care of their dependents. The University pays all benefits on a current basis.

The Employee Retirement Plan (Employee Plan) is a defined benefit plan primarily for full-time non-faculty employees. Employee Plan assets are held by a Trustee. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Employee Plan also provides an alternative benefit through a cash balance benefit formula determined each year based on compensation and investment earnings. In April 2006, the Board of Trustees of the University voted to close the Employee Plan to new employees effective June 1, 2007, and to allow existing participants a one-time choice to freeze their benefits in the Employee Plan and begin participating in a new defined contribution plan effective June 1, 2007. In accordance with Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the University recognized a net curtailment loss of \$1.0 million in 2007 and recorded an increase to the pension liability.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

6. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

As a result of recent contributions made in excess of the minimum required amounts, the University was not required to make contributions during fiscal year ending 2007. The University may, in reassessing the Employee Plan, make discretionary contributions during the next fiscal year.

The following table summarizes the allocation of the assets available for plan benefits for the Employee Plan at May 31:

<u>Asset category</u>	<u>Pension Benefits</u>	
	<u>2007</u>	<u>2006</u>
Equity securities	46.3%	46.9%
Fixed income	31.8%	32.9%
Real estate	1.0%	-
Other investments	20.9%	20.2%
Totals	100.0%	100.0%

The weighted average target asset allocation for the Employee Plan is 39.0% equity securities, 35.0% fixed income, and 26.0% other investments. The investment policy and strategy, as established by the University, is to provide for growth of capital with a moderate level of volatility by investing assets based on the target allocations noted above.

The University reallocates its investments periodically to meet the above target allocations. The University also reviews its investment policy periodically to determine if the policy or allocations should be changed.

The following benefit payments, which reflect expected future service, are expected to be paid, for the fiscal years ending May 31 (in millions):

	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
2008	\$ 25.7	\$.8
2009	26.7	.7
2010	27.8	.8
2011	29.2	.7
2012	30.7	.7
2013-2017	180.8	3.9

The measurement date for the Employee Plan is February 28, 2007 and 2006, and for the postretirement health benefit plan is May 31, 2007 and 2006.

At May 31, 2007, a proposed Employee Plan amendment which would offer lump sum distribution options to future retirees was still pending formal approval from the Internal Revenue Service. At May 31, 2007 and 2006, the accumulated benefit obligation of the Employee Plan was \$581.2 and \$518.0 million, respectively, \$76.8 and \$45.5 million, respectively, in excess of Employee Plan assets. As required, the University recorded a minimum pension liability adjustment of \$108.5 million for the year ended May 31, 2005. The liability was reduced by \$7.5 million for the year ended May 31, 2006, and was increased by \$5.1 million for the year ended May 31, 2007. At May 31, 2007 and 2006, an intangible asset of \$3.0 and \$4.7 million, respectively, was also recorded. This intangible asset equals the unrecognized prior service cost and is to be amortized over future years. For the year ended May 31, 2007, the net effect of the minimum pension liability adjustment of \$5.1 million and the net decrease in the intangible asset of \$1.7 million resulted in a net decrease to unrestricted net assets in the accompanying statements of activities of \$6.8 million. For the year ended May 31, 2006, the net effect of the minimum pension liability adjustment of \$7.5 million was offset by the net decrease in the intangible asset of \$.8 million for a net increase to unrestricted net assets in the accompanying statements of activities of \$6.7 million.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

6. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The following tables provide a reconciliation of the changes in the plans' projected benefit obligations, fair value of assets and funded status (in millions):

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Benefit obligation at beginning of year	\$ 572.1	\$ 534.8	\$ 2.2	\$ 4.1
Service cost – benefits attributed to employee service during period	20.2	18.7	.1	.1
Interest costs accrued to measure benefit obligation at present value	34.1	31.0	.1	.1
Plan participant contributions	-	-	.5	.5
Actuarial (gain) loss	28.8	5.4	.1	(1.9)
Benefits paid to University retirees	(18.2)	(17.8)	(.6)	(.7)
Curtailments	(10.1)	-	-	-
Benefit obligation at end of year	<u>626.9</u>	<u>572.1</u>	<u>2.4</u>	<u>2.2</u>
Employee Plan assets at fair value at beginning of year	472.5	451.8	-	-
Investment return on Employee Plan assets	51.5	39.7	-	-
Benefits paid to University retirees	(18.2)	(17.8)	(.6)	(.7)
Employer contributions	-	-	.1	.2
Plan participant contributions	-	-	.5	.5
Employee Plan expenses	(1.4)	(1.2)	-	-
Employee Plan assets at fair value at end of year	<u>504.4</u>	<u>472.5</u>	<u>-</u>	<u>-</u>
Employee Plan funded status	(122.5)	(99.6)	(2.4)	(2.2)
Unrecognized amounts subject to annual amortization:				
Net actuarial (gain) loss	148.8	150.4	(2.1)	(2.1)
Prior service costs and costs of Employee Plan amendments	3.0	4.7	(.4)	(.4)
Prepaid (accrued) benefit cost	29.3	55.5	(4.9)	(4.7)
Minimum pension liability adjustment	(106.1)	(101.0)	-	-
Accrued benefit cost	<u>\$ (76.8)</u>	<u>\$ (45.5)</u>	<u>\$ (4.9)</u>	<u>\$ (4.7)</u>

The following table provides the components of net periodic pension cost for the plans (in millions):

	2007	2006	2007	2006
Service cost:				
Benefits attributed to employee service during periods	\$ 20.2	\$ 18.7	\$.1	\$.1
Administrative expenses	1.2	1.2	-	-
Total	<u>21.4</u>	<u>19.9</u>	<u>.1</u>	<u>.1</u>
Interest costs accrued to measure benefit obligation at present value	34.1	31.0	.1	.1
Expected return on Employee Plan assets	(39.1)	(37.5)	-	-
Amortization of prior service cost (includes changes in pension formula and cost of Employee Plan amendments)	.7	.8	.1	.1
Recognized net actuarial (gain) loss	8.2	7.8	(.1)	(.1)
One-time curtailment cost as of February 28, 2007	1.0	-	-	-
Net periodic benefit cost	<u>\$ 26.3</u>	<u>\$ 22.0</u>	<u>\$.2</u>	<u>\$.2</u>

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

6. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The following weighted-average assumptions were used for the above calculations:

	Pension Benefits		Postretirement Benefits	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	Discount rate for benefit obligation	5.75%	5.75%	5.75%
Discount rate for net periodic benefit cost	5.75%	5.75%	5.75%	5.75%
Expected return on Employee Plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	4.20%	4.20%	N/A	N/A

To develop the expected long-term rate of return for the Employee Plan, the University considered the historical returns of the major market indicators relating to the target asset allocation, as well as the current economic and financial market conditions.

A 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006. The rate is assumed to decrease 1% per year until reaching the ultimate 5.5% in 2011. Assumed health care cost trend rates have an effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effect (in millions):

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$.1	\$ (.1)
Effect on the health care component of the accumulated postretirement benefit obligation	\$.3	\$ (.2)

Faculty Retirement Plan (Faculty Plan)

The Faculty Plan is a defined contribution plan for eligible faculty hired after September 30, 1977, and certain faculty hired on or before that date, who ceased participation in the Employee Plan. Under the terms of the Faculty Plan, the University purchases individual annuity contracts which commence payment when the faculty member retires. Similar to the Employee Plan, in April 2006, the Board of Trustees of the University voted to close the Faculty Plan to new employees effective June 1, 2007, and to allow existing participants a one-time choice to cease participation in the Faculty Plan and begin participating in a new defined contribution plan effective June 1, 2007.

Contributions are based upon a combination of compensation, age, length of service, and other factors and are funded as accrued. Contributions for the Faculty Plan were \$29.2 million in 2007 and \$27.4 million in 2006. In addition, there are deferred compensation arrangements for certain employees, principally clinical faculty, the liability for which is included in other liabilities.

7. BONDS AND NOTES PAYABLE

Bonds and notes payable at May 31 consist of the following (in millions):

	<u>Series</u>	<u>Final Maturity</u>	<u>2007 Interest Rate</u>	<u>2007</u>	<u>2006</u>
University of Miami					
Exchangeable revenue bonds	1996A	2020	-	\$ -	\$ 14.0
Miami-Dade County, Florida					
Educational Facilities Authority	1993 to 2007C	2016 to 2037	4.00% to 5.48%	503.1	347.4
Repurchase agreement	-	2008	Variable	7.0	9.3
Notes payable to banks and others	-	2009 to 2035	Variable	<u>65.4</u>	<u>87.1</u>
Par amount of bonds and notes payable				575.5	457.8
Net unamortized premium				<u>37.7</u>	-
Total				<u>\$ 613.2</u>	<u>\$ 457.8</u>

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

7. BONDS AND NOTES PAYABLE (Continued)

In April 2007, the University issued \$156.9 million of Series 2007A Revenue Bonds, \$278.6 million of Series 2007B Revenue Refunding Bonds, and \$67.6 million of Series 2007C Revenue and Refunding Bonds through the Miami-Dade County, Florida Educational Facilities Authority (MDCFEFA). The proceeds of the refunding bonds were used to refund all of the previous MDCFEFA Series bonds, and the University of Miami Exchangeable revenue bonds Series 1996A. Although this refunding resulted in a loss on early extinguishment of debt of \$13.1 million, the new bonds bear lower rates thus achieving significant future savings for the University. The repurchase agreement is collateralized by United States Treasury securities.

The annual maturities for bonds and notes payable at May 31, 2007 are as follows (in millions):

2008	\$ 53.4
2009	37.6
2010	17.4
2011	11.8
2012	13.3
Thereafter	<u>442.0</u>
Total	<u>\$ 575.5</u>

Total interest paid was \$24.4 and \$24.7 million for the years ended May 31, 2007 and 2006, respectively.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, patient and student receivables, and other receivables approximate fair value because of the short maturity of these financial instruments. The carrying amounts of accounts payable and accrued expenses approximate fair value because of the short maturity of these financial instruments. The carrying amounts of notes payable with variable interest rates approximate their fair value because the variable rates reflect current market rates for notes with similar maturities and credit quality. The fair value of bonds payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities. The estimated fair value and carrying amounts of these bonds payable at May 31, 2007 approximated \$536.7 and \$540.8 million, respectively. The estimated fair value and carrying amounts of these bonds payable at May 31, 2006 approximated \$369.7 and \$361.4 million, respectively.

The University entered into a \$20.0 million interest rate swap agreement in fiscal 2005 to manage the market risk associated with outstanding variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as part of non-operating activities in the statements of activities. Parties to the interest rate swap agreement are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The University deals only with high quality counterparties that meet rating criteria for financial stability and creditworthiness. The estimated cumulative fair value loss of the swap agreement was \$.8 and \$.1 million for the years ended May 31, 2007 and 2006, respectively. Changes in the fair value, which for fiscal 2007 and 2006 amounted to an unrealized loss of \$.7 million and an unrealized gain of \$.7 million, respectively, are recorded as non-operating activities in the statements of activities.

9. GIFTS AND TRUSTS

The University's Advancement Office (Advancement) reports total gifts and trusts based on the Management Reporting Standards issued by the Council for Advancement and Support of Education (CASE). Gifts, trusts, and pledges (gifts and trusts) reported for financial statement purposes are recorded on the accrual basis.

UNIVERSITY OF MIAMI
Notes To Financial Statements
May 31, 2007 and 2006

9. GIFTS AND TRUSTS (Continued)

The following summarizes gifts and trusts received for the years ended May 31, 2007 and 2006, reported in the statements of activities as well as the CASE standards as reported by Advancement (in millions):

	<u>2007</u>	<u>2006</u>
Unrestricted gifts and trusts in support of programs	\$ 55.0	\$ 55.9
Unrestricted gifts and trusts for plant expansion	8.0	.8
Temporarily restricted gifts and trusts for programs and plant expansion	24.0	48.9
Permanently restricted endowment gifts and trusts	28.9	27.0
Total gifts and trusts, per statements of activities	<u>115.9</u>	<u>132.6</u>
Increases/(decreases) to reflect gifts and trusts per CASE standards:		
Pledges, net	(4.2)	(8.7)
Non-government grants, included in grants and contracts revenue	43.0	35.2
Differences in valuation/recording:		
Funds held in trust by others	16.9	(6.3)
Annuity	.4	1.3
Timing	8.6	7.9
Other	(.1)	(.4)
Total gifts and trusts as reported by Advancement	<u>\$ 180.5</u>	<u>\$ 161.6</u>

10. COMMITMENTS AND CONTINGENCIES

The University had contractual obligations of approximately \$144.4 million at May 31, 2007 for various construction projects and purchases of equipment. In addition, the University is obligated under certain investment fund agreements to periodically advance additional funding up to specified levels. At May 31, 2007, the University had future commitments of \$29.1 million.

The University, in its normal operations, is a defendant in various legal actions. Additionally, amounts received and expended under various federal and state programs are subject to audit by governmental agencies. Management is of the opinion that the outcome of these matters would not have a material effect on the University's financial position or results of operations.

The University leases certain real property. These leases are classified as operating leases and have lease terms ranging up to seventy five years. Total lease expense for the years ended May 31, 2007 and 2006 was \$13.4 and \$12.2 million, respectively.

Future minimum lease payments under noncancelable operating leases at May 31, 2007 are as follows (in millions):

2008	\$ 4.3
2009	4.4
2010	3.9
2011	3.3
2012	2.1
Thereafter	<u>113.0</u>
Total	<u>\$ 131.0</u>

11. SUBSEQUENT EVENTS

On March 27, 2007, the University signed a non binding letter of intent to purchase a general acute care hospital. The purchase is expected to be completed by the fall of 2007. The University plans to ultimately finance the purchase through the issuance of bonds.