The Washington and Lee University

Financial Statements
As of and for the year ended June 30, 2007
(with summarized financial information for the year ended June 30, 2006)

The Washington and Lee University
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As of and for the Years Ended June 30, 2007 and 2006

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees
The Washington and Lee University:

In our opinion, the accompanying statements of financial position at June 30, 2007 and 2006 and the related statement of activities for the year ended June 30, 2007, and the related statements of cash flows for the years ended June 30, 2007 and 2006 present fairly, in all material respects, the financial position of The Washington and Lee University (the "University") as of June 30, 2007 and 2006, and the changes in its net assets for the year ended June 30, 2007 and its cash flows for the years ended June 30, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America. 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. The prior year summarized comparative information on the statement of activities has been derived from the University's June 30, 2006 financial statements, and in our report dated October 25, 2006 we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 15 to the financial statements, in fiscal year 2007 the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106 and 132 (R). As discussed in Note 16 to the financial statements, in fiscal year 2006 the University adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations.*

PricewaterhouseCoopers LLP

October 12, 2007

The Washington and Lee University
Statements of Financial Position
June 30, 2007 and 2006

(In thousands)	2007	2006
Assets		
Cash and cash equivalents	$ 19,155	$ 21,780
Accounts and other receivables	1,062	2,858
Notes receivable	3,597	3,468
Contributions receivable, net	133,327	25,011
Inventories	730	715
Investments	813,655	684,068
Funds held in trust by others	307,881	254,575
Assets restricted to investment in land, buildings, and equipment	6,246	3,681
Land, buildings, and equipment, net	185,099	178,015
Debt issuance costs	956	771
Total assets	$ 1,471,708	$ 1,174,942
Liabilities and Net Assets		
Accounts and other payables	$ 6,770	$ 6,910
Accrued compensation	1,754	1,638
Student and other deposits	1,303	785
Deferred revenue	1,607	1,621
U.S. Government grants refundable	1,969	2,000
Split interest agreement obligations	73,256	65,437
Asset retirement obligation	2,707	2,584
Postretirement benefit obligation	9,978	11,249
Debt	129,819	116,046
Total liabilities	229,163	208,270
Net assets		
Unrestricted	559,924	476,479
Temporarily restricted	72,572	56,075
Permanently restricted	610,049	434,118
Total net assets	1,242,545	966,672
Total liabilities and net assets	$ 1,471,708	$ 1,174,942

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

The Washington and Lee University
Statements of Activities
Year Ended June 30, 2007 (with summarized financial information for the year ended June 30, 2006)

(In thousands)	2007 Unrestricted	2007 Temporarily Restricted	2007 Permanently Restricted	2007 Total	2006 Total
Revenue, gains, and other support					
Tuition and fees	$ 67,600	$ -	$ -	$ 67,600	$ 61,070
Less donor funded student financial aid	(15,601)	-	-	(15,601)	(13,128)
Less institutionally funded student financial aid	(2,405)	-	-	(2,405)	(1,820)
Net tuition and fees	49,594	-	-	49,594	46,122
Investment return allocated to operations	25,756	3,186	-	28,942	27,249
Other investment income allocated to operations	1,798	289	-	2,087	2,159
Income from funds held in trust by others allocated to operations	7,550	139	-	7,689	6,951
Contributions	8,849	-	-	8,849	8,315
Auxiliary enterprises (net of $796 and $625 of institutionally funded student financial aid)	13,888	-	-	13,888	12,840
Governmental and other grants	127	1,019	-	1,146	1,581
Other	1,036	354	-	1,390	836
Net assets released from restrictions:					
Satisfaction of program restrictions	6,375	(6,375)	-	-	-
Satisfaction of equipment acquisition restrictions	149	(149)	-	-	-
Total revenue, gains, and other support	115,122	(1,537)	-	113,585	106,053
Expenses and losses					
Instruction	52,131	-	-	52,131	45,739
Research	1,713	-	-	1,713	2,053
Public service	543	-	-	543	415
Academic support	13,362	-	-	13,362	12,969
Financial aid	1,744	-	-	1,744	2,587
Student services	10,045	-	-	10,045	9,350
Institutional support	14,965	-	-	14,965	12,898
Auxiliary enterprises	15,390	-	-	15,390	14,609
Total expenses and losses	109,893	-	-	109,893	100,620
Change in net assets from operating activities	5,229	(1,537)	-	3,692	5,433
Non-operating activities					
Investment returns	79,055	5,029	4,101	88,185	43,604
Investment returns from funds held in trust by others	-	5,247	48,059	53,306	6,235
Change in value of split interest agreements	(86)	(3,183)	(3,076)	(6,345)	(2,464)
Contributions	-	9,754	125,657	135,411	11,242
Other	-	(162)	5	(157)	(13)
Net assets released for fixed asset acquisition	3,600	(3,600)	-	-	-
Reclassifications	(6,134)	4,949	1,185	-	-
Total non-operating activities	76,435	18,034	175,931	270,400	58,604
Change in net assets before cumulative changes in accounting principles	81,664	16,497	175,931	274,092	64,037
Cumulative changes in accounting principles					
Postretirement benefit plans	1,781	-	-	1,781	-
Asset retirement obligations	-	-	-	-	(2,355)
Change in net assets	83,445	16,497	175,931	275,873	61,682
Net assets					
Beginning of year	476,479	56,075	434,118	966,672	904,990
End of year	$ 559,924	$ 72,572	$ 610,049	$ 1,242,545	$ 966,672

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

The Washington and Lee University
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

(In thousands)	2007	2006
Cash flows from operating activities		
Change in net assets	$ 275,873	$ 61,682
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Cumulative effect of a change in accounting principle	(1,781)	2,355
Realized and unrealized gains on investments	(103,638)	(58,172)
Unrealized gains on funds held in trust by others	(53,293)	(6,235)
Depreciation, amortization and accretion	8,855	7,488
Actuarial (gain)loss on annuity obligations, net	(1,707)	1,662
Gain on contributed securities	(18,931)	(5,449)
Contributions restricted for long-term investment	(9,153)	(5,792)
Interest and dividends restricted for long-term investment	(278)	(204)
(Increase) decrease in:		
Accounts and other receivables, net	1,667	(1,285)
Contributions receivable, net	(108,316)	7,976
Inventories	(16)	(176)
Increase (decrease) in:		
Accounts payable and other accrued liabilities	486	1,303
Student and other deposits	518	111
Deferred revenue	(14)	(231)
U.S. Government grants refundable	(31)	(66)
Split interest agreement obligations	8,843	1,638
Net cash and cash equivalents (used in) provided by operating activities	(916)	6,605
Cash flows from investing activities		
Purchases of land, buildings, and equipment, net	(15,906)	(17,418)
Purchases of investments restricted to land, buildings, and equipment	(7,877)	(1,461)
Proceeds from sale of investments	507,932	375,486
Purchases of investments	(522,657)	(357,406)
Net cash and cash equivalents used in investing activities	(38,508)	(799)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment:		
Interest and dividends restricted for long term investment	278	204
Investments in endowment and plant	28,084	11,241
	28,362	11,445
Other financing activities:		
Payments for debt issuance costs	(260)	-
Payments of split interest agreements	(5,239)	(4,634)
Proceeds from issuance of long-term debt	20,447	-
Payments on long-term debt	(6,511)	(1,922)
Net cash and cash equivalents provided by financing activities	36,799	4,889
Net (decrease) increase in cash and cash equivalents	(2,625)	10,695
Cash and cash equivalents		
Beginning of year	21,780	11,085
End of year	$ 19,155	$ 21,780
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 6,432	$ 5,992

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

1. Organization

The Washington and Lee University (the "University") is a private, liberal arts university in Lexington, Virginia. Founded in 1749, it is the ninth oldest institution of higher learning in the nation. The University is named after George Washington, as he gave the school its first major endowment, and after General Robert E. Lee, as a result of his strong leadership as president of the University. The University is comprised of the College, the Ernest Williams II School of Commerce, Economics and Politics, and the School of Law. There are approximately 1,700 undergraduate students and approximately 400 law students.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The University follows Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. SFAS No. 117 specifies that financial statements provided by not-for-profit organizations include statements of financial position, statements of activities, and statements of cash flows. SFAS No. 117 further provides that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. The financial statements have been prepared on the accrual basis of accounting.

Classification of Net Assets

In accordance with SFAS No. 117, the University's net assets have been grouped into the following three classes:

Unrestricted Net Assets
Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and receiving dividends and interest from investing in income-producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets
Temporarily restricted net assets generally result from contributions, unrealized and realized gains and losses, receiving dividends and interest from investing in income-producing assets, and other inflows of assets less expenses incurred in the programs supporting these assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations.

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

The University retains an interest in several funds held in trust by others (see Note 9) which are classified as permanently restricted net assets. Annual adjustments to record the University's interest in such trusts at the current market value are also recorded as permanently restricted in the statement of activities and are, therefore, reflected as permanently restricted net assets in the statement of financial position.

Classification of Gifts
Contributions are reported as increases in the appropriate category of net assets, except contributions that impose restrictions that are met in the same fiscal year. These contributions are received and included in unrestricted revenues.

The University reports gifts of cash and other assets at their fair value as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

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

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

Cash and Cash Equivalents
The University considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value.

The University has $6,246,000 and $3,681,000 in restricted cash at June 30, 2007 and 2006, respectively. The cash is restricted for use under the terms of its agreements with the donor that limits the funds to investments in land, building, and equipment.

Notes Receivable
Notes receivable are carried at face value, less an allowance for doubtful accounts of $452,000 and $347,000 at June 30, 2007 and 2006, respectively. The interest rates on federal student financial aid range from 3% to 5%. Maturity dates range up to 10 years.

Real Estate Mortgage Loans
Full time faculty members and administrative, professional and supervisory employees who are defined as exempt personnel under the terms of the Fair Labor Standards Act of 1938, as amended, are eligible for University housing loans. There are also residual loans to a Greek housing affiliate. These housing loans may be used to purchase, build, or improve a principal residence in the Lexington-Rockbridge County area immediately upon entering the employ of the University. These real estate mortgages, included in investments on the accompanying statements of financial position, are carried at fair value of $40,658,000 and $36,048,000 as of June 30, 2007 and 2006, respectively. The interest rates on these loans range from 3.24% to 7.96% and maturity dates range up to 30 years. The face value of these loans as of June 30, 2007 and 2006 was approximately $47,761,000 and $43,673,000, respectively.

Inventories
Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out ("FIFO") basis.

Investments
Investments are carried at fair value and net unrealized and realized gains or losses are reflected in the statement of activities. Certain land and other investments which are not readily marketable are valued at fair value where determinable or at cost when its fair value is not determinable (See Note 7).

All investment income is included in unrestricted revenues, temporarily restricted revenues, or permanently restricted revenues depending on donor restrictions. The amount of investment income necessary to satisfy the Board of Trustees' spending policy for the endowment fund is included the investment returns allocated to operations in the accompanying statements of activities. Any excess of income earned over the approved spending amount is retained in the endowment pool.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on the trade date. Except for investments where donors specifically provide otherwise, investments are maintained in a pool. Gifts that are invested in the pool are assigned units of participation in the pool based upon their fair market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent distributions of annual income, based on the spending formula authorized by the Board of Trustees (the "Board"), of the investment pool are based upon the number of units of participation. Withdrawals are based upon the most recently determined market value of the respective units of participation, which includes both realized and unrealized net gains or losses. The market value of the units of participation is calculated monthly.

Split Interest Agreements
The University records split interest agreements such as charitable remainder trusts and charitable lead trusts in accordance with the AICPA Audit and Accounting Guide for Not-For-Profit Organizations. Donors establish and fund a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. If applicable, liabilities to beneficiaries associated with these split interest agreements are calculated using the appropriate discount rate, which approximates the risk-free rate of return, at the time they are established. If applicable under generally accepted accounting principles, liabilities for these split interest agreements are adjusted annually for changes in actuarial assumptions, amortization of the discount or to use a current discount rate at the then risk-free rate of return. Upon termination of the trust, the University receives the portion of assets remaining in the trust as specified by the donor.

Charitable remainder trusts, for which the University is not the trustee, are recorded at the fair value of their beneficial interest. The University records revenue for charitable lead trusts, for which the University is the trustee, based on the present value of future cash flows expected to be received by the University. The fair value of the assets held in trust by the University are included in investments and the associated liability, representing the present value of the liability to the donor's estate, is included in split interest agreement obligations in the accompanying statements of financial position.

The University also manages gift annuities, which consist of non-trust assets donated to the University in exchange for a fixed payment for a specified period of time. The gift annuities are recognized at fair value when received, and included in investments in the accompanying statements of financial position. The associated liability is initially calculated at the present value of future cash flows and adjusted in subsequent periods to reflect changes in actuarial assumptions. Liabilities associated with gift annuities are included in split interest agreement obligations in the accompanying statements of financial position.

Pooled life income funds are donated funds received by the University and are assigned a specific number of units in the pool. The donor is paid the amount of income earned on the donor's assigned units. Pooled life income funds are recorded at their fair value and are included in investments in the accompanying statements of financial position. The University's interest is recognized as contribution revenue in the period in which the assets are received by the donor. The difference between the fair value of the assets when received and the revenue recognized is recorded as a liability and included in split interest agreement obligations in the accompanying statements of financial position.

Land, Buildings, Equipment, and Art Properties

Land, buildings, equipment, and art properties are stated at cost at the date of acquisition or fair value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (30-50 years) and equipment (10 years). The University does not provide depreciation on its art properties because a decrease in economic benefit is not anticipated since the University expects to take the necessary steps to maintain their condition. Equipment is removed from the records and any gain or loss recognized at the time of disposal. Interest on borrowings is capitalized from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use or the borrowing is retired, whichever occurs first. Capitalized interest is amortized over the useful life of the qualifying asset.

Accrued Compensation

The University accrues for vacation pay and all other compensation earned but not paid.

Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession nor under the control of the institution, but held and administered by outside fiscal agents, with the University deriving income from such funds. The fair value of the University's share of the assets is reflected in the statement of financial position and the income (including unrealized appreciation and depreciation) is recorded in the statement of activities.

Contributions Receivable

The University accounts for contributions under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No.116 requires the University to record a receivable to reflect the unconditional promises of donors to make future contributions. Contributions receivable are recorded at fair value and long-term pledges are discounted to their net present value. An allowance is made for uncollectible contributions based upon management's judgment after analysis of creditworthiness of the donors, past collection experience, and other relevant factors.

Functional Expenses

The University has developed and implemented a system of allocating expenses related to more than one function. These expenses are depreciation, interest and operations and maintenance of plant. Depreciation is allocated by individual fixed assets to the function utilizing that asset. Interest is allocated based on the use of borrowed money in the individual functional category.

The operations and maintenance of plant is divided into expenses used for the total institution not charged back to the operating units, and those expenses that are charged to some units but not all units. Allocation was determined though a study of departmental uses of the operations and maintenance budget within each functional category.

Tuition and Fees

Tuition and fee revenues are recorded on the statement of activities net of funded student financial aid as unrestricted revenue. Funded student financial aid is provided from earnings on restricted funds and certain board-designated endowments along with gifts and grants dedicated to providing student financial aid.

Operations

Operating revenues and expenses include all transactions that increase or decrease unrestricted net assets except those associated with long-term investments. Operating revenues include allocations appropriated in accordance with the University's endowment spending policy, as reflected in the statement of activities as investment returns.

Derivative Instruments

All derivatives are included in accounts and other receivables and deferred revenue on the statement of financial position at their fair value. Changes in the fair value of derivatives are recorded as other non-operating activities on the statement of activities.

Using derivative financial instruments may increase the University's exposure to credit risk and market risk. The University minimizes the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties, (2) limiting the amount of exposure to each counterparty, and (3) monitoring the financial condition of its counterparties. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates. The University manages the market risk associated with derivative financial instruments by requiring approval of the Board of Trustees for all such activities.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Items subject to such estimates and assumptions primarily include the carrying value of land, buildings and equipment, non-traditional investments, certain real estate holdings, post-retirement benefits, and accounts and contributions receivable. In the near term, 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. However, there are certain activities operated by the University that fall under unrelated business activities which are not exempt from federal income tax. The University files timely federal returns for these activities and makes the necessary tax payments, if applicable.

Summarized Comparative Information

The statement of activities includes certain summarized comparative information as of June 30, 2006 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of

America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2006 from which the summarized information was derived.

Reclassifications

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

3. Contributions Receivable

The estimated fair value of contributions receivable, less a discount based on the date they are expected to be received, at June 30, 2007 and 2006, is as follows (in thousands):

	2007	2006
Less than one year	$ 37,628	$ 9,177
One year to five years	111,949	16,398
Over five years	2,347	4,500
Total contributions receivable, gross	151,924	30,075
Less allowance for uncollectible accounts	(1,367)	(289)
Total contributions receivable, net of allowance	150,557	29,786
Discount to reduce contributions to present value	(17,230)	(4,775)
Total	$ 133,327	$ 25,011

The University uses a discounting model that is consistent with industry guidelines. The discount rate is derived from the market value of the U.S. Treasury Bond on the date of the pledge which remains constant for the life of a pledge. At June 30, 2007 and 2006 the discount rates ranged from 2.44% to 8.47%.

During fiscal year 2007, the University received two permanently restricted contributions totalling $133,000,000. As of June 30, 2007, the balance remaining to be collected on these commitments is $120,000,000. These contributions are restricted to fund faculty salaries, scholarships, professorships, internships, lectures, and a special fund that enables the University to respond strategically to changing needs.

4. Land, Buildings and Equipment

Land, buildings, and equipment (at cost) at June 30, 2007 and 2006 consist of the following (in thousands):

	2007	2006
Land	$ 2,288	$ 1,975
Land improvements	7,585	7,333
Buildings	234,351	206,410
Equipment	35,074	34,212
Art properties	2,134	2,034
	281,432	251,964
Less accumulated depreciation	(106,907)	(98,085)
	174,525	153,879
Construction in process	10,574	24,136
Total	$ 185,099	$ 178,015

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 and 2006 are available for the following purposes (in thousands):

	2007	2006
Financial aid	$ 11,092	$ 11,764
General operations	44,704	31,420
Buildings and equipment	14,032	9,612
Other	2,744	3,279
Total	$ 72,572	$ 56,075

6. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2007 and 2006 are available to support the following (in thousands):

	2007	2006
Financial aid	$ 212,221	$ 127,250
General operations	387,480	303,388
Other	10,348	3,480
Total	$ 610,049	$ 434,118

7. Investments

Investments, which are carried at fair value, are comprised of the following at June 30, 2007 and 2006 (in thousands):

	2007	2006
Short-term investments	$ 58,955	$ 64,194
Domestic equities	195,303	142,345
International equities	184,516	137,273
U.S. Government and agency obligations	63,718	52,474
Fixed income taxable	13,326	-
Corporate and other obligations	27,505	30,446
Energy natural resources	70,217	78,905
Emerging markets	4,347	-
Other alternative investments	27,746	13,660
Hedge funds	116,599	115,304
Mortgage loans to exempt employees	40,658	36,048
Real estate trusts and partnerships	7,560	9,909
Land and other investments	3,205	3,510
Total	$ 813,655	$ 684,068

The University's investments, consisting of publicly traded fixed income and equity securities, alternative investments and cash held for reinvestment, are stated at fair value as of June 30. Alternative investments include hedge fund investments, private equity and venture capital, natural resource and real estate investments. The University has made commitments to certain investments for which capital contributions are drawn over time. The outstanding commitments to these investments were $44,582,000 and $50,108,000 as of June 30, 2007 and 2006, respectively.

The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2007 and 2006. If a quoted market value is not available for an alternative investment, then the fair value is based upon valuations provided by the investment managers. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed.

Most of the University's long-term investments are held in an investment pool. Annuity and life income trusts and certain other investments are maintained separately from the investment pool.

The participation in the pool and ownership of the other investments at June 30, 2007 and 2006 for each class of net assets is as follows (in thousands):

2007	Investment Pool	Annuity and Life Income	Other	Total
Net assets				
Unrestricted	$ 500,860	$ -	$ 14,524	$ 515,384
Temporarily restricted	2,824	75,019	-	77,843
Permanently restricted	196,121	24,307	-	220,428
Investments as of June, 30, 2007	$ 699,805	$ 99,326	$ 14,524	$ 813,655
2006				
Net assets				
Unrestricted	$ 412,848	$ -	$ 4,441	$ 417,289
Temporarily restricted	2,514	68,758	-	71,272
Permanently restricted	175,288	20,219	-	195,507
Investments as of June 30, 2006	$ 590,650	$ 88,977	$ 4,441	$ 684,068

The following schedule summarizes the investment return and its classification in the statement of activities (in thousands):

	2007				2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Income on long-term investments	$ 8,973	$ 3,226	$ 259	$ 12,458	$ 11,738
Net realized and unrealized gain	95,838	4,284	3,516	103,638	58,172
Net split interest agreements gain(loss)	25	(550)	(1,182)	(1,707)	1,662
Other investment income	1,798	994	326	3,118	3,102
Total investment return	106,634	7,954	2,919	117,507	74,674
Investment return allocated to operations (spending policy distributions)	(25,756)	(3,186)	-	(28,942)	(27,249)
Other investment income allocated to operations	(1,798)	(289)	-	(2,087)	(2,159)
Excess of investment earnings over spending rate amount	$ 79,080	$ 4,479	$ 2,919	$ 86,478	$ 45,266

As of June 30, 2007, the fair value of permanently restricted endowment funds were above their historical value (as adjusted for the effects of donor restrictions). Accordingly there were no investment losses recognized as a reduction in unrestricted net assets for the year ended June 30, 2007.

8. Endowment

Endowment is a term used commonly to refer to the resources that have been restricted by the donor or designated by the Board of Trustees that will be invested to provide future revenue to support the University's activities. The University holds 1,111 endowment funds of which 1,025 are true endowments (restricted by the donor) and 86 are quasi-endowments (designated by the Board). The market value of true endowments at June 30, 2007 and 2006 was $483,622,000 and $ 410,771,000, respectively. The market value of quasi-endowments at June 30, 2007 and 2006 was $209,175,000 and $176,198,000, respectively.

Endowment Spending Formula

The Board-approved spending formula for the endowment provides for spending the lesser of the prior-year allocation incremented by a Consumer Price Index-based inflator, 6% of the three-year average of market values at December 31, or a 5% ceiling related to the June 30 market value. This single formula model is often referred to as a constant growth spending formula.

The total allocation to operations based on the spending formula for June 30, 2007 and 2006 was $28,942,000 and $27,249,000, respectively. The total market value of true and quasi-endowments as of June 30, 2007 and 2006 was $692,797,000 and $586,969,000, respectively. The payout rate defined as allocation divided by the beginning market value was 4.95% for 2007 which was down from 5.09% in 2006.

9. Funds Held in Trust by Others ("FHTBO")

The majority of the FHTBO balance comes from the bequest of Letitia P. Evans of 15% of the annual net income of the Lettie Pate Evans Foundation, Inc. Restricted Fund. At June 30, 2007 and 2006, the market value of the University's interest was reported by the trustees as $258,686,000 and $214,701,000, respectively. During the years ended June 30, 2007 and 2006, the University received income of $6,400,000 and $5,829,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2007 and 2006, the University maintained an interest in 46 other trusts, with market values reported by the trustees of $49,195,000 and $39,874,000 and income of $1,289,000 and $1,076,000, respectively.

10. Debt

Long-term debt consists of the following obligations at June 30, 2007 and 2006 (in thousands):

	Final Maturity	Interest Rates	2007	2006
Virginia College Building Authority				
1994 Note, net of discount of $91	January 2014	4.1%-5.6%	$ -	$ 4,724
1998 Note, includes premium of $1,366 and $1,408, respectively	January 2031	5.03%-5.05%	53,571	53,613
2001 Note, includes premium of $2,612 and $2,712, respectively	January 2034	5.0%-5.75%	45,612	45,713
2006 Note, includes premium of $381	January 2016	4.0%-5.0%	19,581	-
Industrial Development Authority				
1997 Note	December 2012	Variable	4,108	4,402
2003 Note	April 2018	Variable	2,897	3,094
Sun Trust Bank				
2003 Commercial Note	December 2008	Variable	4,050	4,500
			$ 129,819	$ 116,046

Aggregate principal payments due for the next five fiscal years are: 2008 - $3,538,000; 2009 - $5,951,000; 2010 - $2,551,000; 2011 - $2,588,000; 2012 - $2,446,000 and thereafter - $108,386,000.

In 1994, the Virginia College Building Authority ("VCBA") issued Educational Facilities Revenue Bonds and Revenue Refunding Bonds, the proceeds of which have been loaned to the University in exchange for its notes ("1994 Notes"). Bonds related to the 1994 Note were redeemed by the University with the issuance of the VCBA 2006 Bonds dated August 10, 2006.

In December 1997, the Industrial Development Authority of the City of Lexington, Virginia (the "Lexington Authority") issued bonds in the amount of $8,500,000. The proceeds derived from the sale were loaned to the University in exchange for its note payable. Such proceeds were used primarily to finance the renovation, furnishing and equipping of various buildings; to construct and renovate various entrances and parking areas; and to acquire campus-based motor vehicles. Semi-annual principal and interest payments are due beginning July 1, 1998 and are to continue until maturity in 2012. Interest on the note is payable semi-annually at variable rates equal to 67% of the LIBOR plus .20% (the "Variable Rate").

Concurrently with the issuance, the University entered into an interest rate swap agreement (the "Swap") on all $8,500,000 of its variable rate debt under the note payable to the Lexington Authority, at a fixed rate of 4.56%. The Swap is used to minimize cash flow fluctuations of interest payments caused by the volatility of LIBOR, which is the index rate upon which interest payments under the note payable are calculated. The interest rate swap is not considered a cash-flow hedging instrument under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and therefore changes in fair value are recorded in the changes in net assets each year. The realized and unrealized gains on the Swap for the years ended June 30, 2007 and 2006 were approximately $11,000 and $222,000, respectively.

In April 1998, the VCBA issued $52,205,000 in Educational Facilities Revenue Bonds, Series of 1998 (the "1998 Bonds"). The proceeds derived from the sale of the 1998 Bonds were loaned to the University in exchange for its Note. Such proceeds were used primarily to finance the construction of a new parking facility and to complete the extinguishment of $7,870,000 of the Series 1992 Note and $36,030,000 of the Series 1994 Note.

In June 2001, the VCBA issued bonds in the amount of $43,000,000. The proceeds derived from the sale were loaned to the University in exchange for its unsecured note payable. Such proceeds were used to assist in the financing of the construction of a University Commons, renovation of Reid Hall, renovation of a portion of Doremus Gymnasium, renovation of Law rooms, the construction of an Arts and Music building, renovation of the University Co-Op Building, relocation of utilities necessary for the construction of the aforementioned projects, and upgrades and improvements to the University central heating and cooling plant. Semi-annual interest payments began January 1, 2002 with annual principal payments commencing January 1, 2016 and continuing until maturity in January 2034. Interest on the note is payable semi-annually at a per annum rate of 5.375% through January 2021, 5.00% through January 2025, and 5.75% through January 2034.

In March, 2003, the Rockbridge IDA issued bonds in the amount of $3,950,000. The proceeds derived from the sale were loaned to the University in exchange for its Note and such proceeds were used to extinguish the Series 2000 Note. Principal payments on this Note are payable in installments of $65,833 on each January 1, April 1, July 1 and October 1, beginning July 1, 2003 and continuing until April 1, 2018. Interest on the unpaid principal is payable on these same dates at a variable annual rate equal to the sum of (a) 65% of the LIBOR and (b) 0.59%. Interest shall be calculated on the basis of a year of 360 days and the actual number of days elapsed.

Concurrently with the issuance, the University entered into an interest rate swap agreement ("Swap 2") on all $3,950,000 of its variable rate debt under the note payable to the Lexington Authority, at a fixed rate of 3.48%. Swap 2 is used to minimize cash flow fluctuations of interest payments caused by the volatility of LIBOR, which is the index rate upon which interest payments under the note payable are calculated. The interest rate swap is not considered a cash-flow hedging instrument under SFAS No. 133. The realized and unrealized losses on Swap 2 for the year ended June 30, 2007 were approximately $25,000 and the realized and unrealized gains for the year ended June 30, 2006 were approximately $152,000.

In December 2003, the University entered into a refinancing of the 1998 commercial taxable loan for the principal balance of $6,000,000. The 2003 Note is payable in quarterly installments beginning March 31, 2004 with a maturity set for December 2008. Principal will be paid in equal installments with an interest rate established for the first five years of the loan. Interest is computed on the aggregate unpaid principal balance at a rate equal to LIBOR plus .60% on the basis of a 360-day year for the actual number of days elapsed. The interest rate will be changed on the first day of the month and accrued interest is paid quarterly to bondholders. SunTrust Bank and the University each have the option to continue the loan beyond December 2008 to December 2013, with the rate reset at the option renewal date.

Concurrently with the issuance, the University entered into an interest rate swap agreement ("Swap 3") on all $6,000,000 of its variable rate debt under the note payable to SunTrust Bank, at a fixed rate of 4.32%. Swap 3 is used to minimize cash flow fluctuations of interest payments caused by the volatility of

LIBOR, which is the index rate upon which interest payments under the note payable are calculated. The interest rate swap is not considered a cash-flow hedging instrument under SFAS No. 133. The realized and unrealized losses on Swap 3 for the years ended June 30, 2007 were approximately $81,000 and the realized and unrealized gains for the year ended June 30, 2006 were approximately $151,000.

On August 10, 2006, the VCBA issued Educational Facilities Revenues Bonds, for $20,045,000 ("2006 Bonds"), the proceeds of which were loaned to the University in exchange for a promissory note and such proceeds were used to refund the 1994 Note and will be used to pay for certain campus projects consisting of (a) the remodeling of the Co-op building to provide additional faculty offices, administrative assistant stations, student meeting rooms, and small lounge areas; (b) capital improvements pursuant to the University's Three Year Capital Plan, including the renovation and improvement of buildings, mechanical system replacements and improvements, computing system replacements and enhancements, and the maintenance and upgrade of health and safety systems; and (c) capital improvement projects in connection with the creation of an energy performance program, including water conservation, lighting system improvements, various boiler enhancements, and a cover for the pool in the Warner Center; and (d) to pay costs of issuance of the 2006 Bonds. Annual principal payments on this Note began January 1, 2007. Semi-annual interest payments began January 1, 2007. The 2006 Bonds may not be called for redemption at the option of the Authority before January 1, 2016. 2006 Bonds maturing on or after January 1, 2017, may be redeemed at the option of the Authority at the direction of the University prior to their respective maturities in whole or in part at any time, on or after July 1, 2016.

In connection with the issuance of the 2006 Bonds and redemption of 1994 Note, a loss on the extinguishment of debt of $160,000 was recorded for the year ended June 30, 2007, which is included in the accompanying statement of activities. Unamortized debt issuance costs as of June 30, 2007 and 2006 are $956,000 and $771,000. Amortization expense related to the debt issuance costs for the years ended June 30, 2007 and 2006 was $75,000 and $34,000 respectively, and is included in total expenses and losses in the accompanying statements of activities.

The estimated fair value of the University's long-term debt, including current maturities, was $135,149,000 and $120,599,000 as of June 30, 2007 and 2006, respectively. Fair market values for 2007 were estimated based on an average interest rate of 4.49%, the bond buyer municipal index rate for June 30, 2007. The University received an assessment of the outstanding debt from a major underwriter. Their methodology structured the existing debt service cash flows of each outstanding series of fixed rate bonds as of June 30. Using the remaining principal amortization structure of each series of bonds and interest rates, a calculation was performed to get a bond yield and then a discount rate for each existing series of bonds. Each discount rate was then used to calculate the present value of debt service.

11. Net Assets Released From Restrictions

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Purpose restrictions accomplished during the years ended June 30, 2007 and 2006 were as follows (in thousands):

	2007	2006
Financial aid	$ 1,462	$ 1,330
General operations	2,341	1,371
Other	2,572	2,820
	6,375	5,521
Buildings and equipment	3,749	2,359
Total	$ 10,124	$ 7,880

12. Expenses

Expenses for the years ended June 30, 2007 and 2006 were incurred for the following (in thousands):

	2007	2006
Salaries, wages and benefits	$ 60,814	$ 56,365
Supplies and services	29,632	26,767
Depreciation	8,822	7,472
Costs of sales, auxiliary enterprises	4,060	3,855
Interest	5,628	5,105
Postretirement	937	1,056
Total	$ 109,893	$ 100,620

13. Lead Annuity Trust Agreements

The University has entered into certain lead annuity trust agreements (the "Trusts") with donors whereby the University will receive a percentage of the Trusts' fair market values each year. Upon termination of the Trusts, the remaining assets will be remitted to the beneficiaries named by the donors. As of June 30, 2007, the market value of the Trusts' assets and the related income for the year then ended were $41,945,000 and $849,000, respectively. The market value of the Trusts' assets and the related income for the year ended June 30, 2006 were $36,584,000 and $856,000, respectively. The market value of the charitable lead annuity trusts agreements are included in investments and the associated liabilities to beneficiaries are included in split interest agreement obligations in the accompanying statements of financial position.

14. Retirement Annuity Contribution

Academic and non-academic personnel of the University are included in the 403(b) contributory retirement plan of the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA-CREF"). The University matches optional employee contributions up to 5% of their annual salary. In addition, the University makes a mandatory contribution of 5% of the employee's annual salary. Contributions are paid currently to TIAA-CREF. The University's cost under this plan amounted to $3,879,000 and $3,563,000 for the years ended June 30, 2007 and 2006, respectively.

15. Postretirement Benefits

The University currently provides health insurance in the form of a retiree medical benefit (the "Plan") to certain retired employees and their dependents. The costs of postretirement benefits are accrued during the service lives of employees. With the recent changes in Medicare legislation, the University has the opportunity to receive a subsidy payment from the U.S. government on certain levels of prescription drug purchases through the Plan. The calculations of future obligations as outlined below include the assumption that the University will participate in the subsidy program and will share the subsidy payment on a pro rata share with the retiree based upon the prevailing premium cost sharing formula. The plan is unfunded. Employees of record prior to April 1, 2003 are eligible to qualify for this benefit. Those hired on or after April 1, 2003 cannot participate in the Plan.

The components of net periodic postretirement benefit cost for the years ended June 30, 2007 and 2006 were as follows (in thousands):

	2007	2006
Service cost (benefits attributed to employee service during the year)	$ 392	$ 505
Interest cost on accumulated postretirement benefit obligation	609	541
Amortization of actuarial gain	(64)	-
Net periodic postretirement benefit cost	$ 937	$ 1,046

The amortized actuarial gain results from changes in certain assumptions and will be amortized over a period based on the average future service of participants expected to receive plan benefits.

The discount rate used in determining the accumulated postretirement benefit obligation ("APBO") as of June 30, 2007 and 2006 was 6.25%. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 9.5% in 2007, decreasing to 5% over the next ten years. Beginning January 1, 2007, contributions for retirees were increased to $57.00 per month, which represents 30% of the premium paid by the University each month to fund the Plan. The postretirement benefit obligation calculation assumes the retiree contribution will increase over the next two years to 40% of the premium paid by the University to fund the Plan.

The following information summarizes activity in the postretirement benefit plan:

	2007	2006
Change in benefit obligation:		
Accumulated benefit obligation, beginning of year	$ 9,572	$ 10,573
Service cost	391	505
Interest cost	609	541
Actuarial gain	(168)	(1,553)
Net benefits paid	(426)	(494)
Accumulated benefit obligation, end of year	$ 9,978	$ 9,572

Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:	
Net actuarial gain	$ 1,781
Prior service cost	-
	$ 1,781

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement No. 87, 88,106 and 132R.* SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. SFAS No. 158 also requires an employer to measure the plan's funded status as of the same date as the employer's fiscal year end. The 2007 adoption of SFAS No. 158 resulted in the University recording a cumulative effect of change in accounting principle of $1,781,000 which had the following incremental effects on the University's statement of financial position as of June 30, 2007:

	Before Application of SFAS No. 158	Incremental Effect	After Application of SFAS No. 158
Postretirement liability	$ 11,759	$ (1,781)	$ 9,978
Total liabilities	230,944	(1,781)	229,163
Unrestricted net assets	558,143	1,781	559,924
Total net assets	1,240,764	1,781	1,242,545
Total liabilities and net assets	1,471,708	-	1,471,708

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2008 - $378,000; 2009 - $420,000; 2010 - $444,000; 2011 - $490,000; 2012 - $533,000. An additional $3,635,000 is expected to be paid for the fiscal years 2013 through 2017.

Total employer and participant contributions are $426,000 and $170,000, respectively, for the year ended June 30, 2007. Total benefits paid for the year ended June 30, 2007 are $597,000. The expected employer and participant contributions for the period ending June 30, 2008 is expected to be $378,000 and $162,000, respectively, for a total of $540,000 in benefits paid. The expense discount rates for June 30, 2007 and 2006, are 6.25% and 5%, respectively. The measurement date was June 30, 2007.

16. Asset Retirement Obligations

On June 30, 2006, the University adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 requires that the fair value of the liability for the asset retirement obligations (ARO) be recognized in the period in which it is incurred and the settlement date is estimable, even if the exact timing or method of settlement is unknown. The ARO is capitalized as part of the carrying amount of the long lived asset retroactively to the time at which legal or contractual regulations created the obligation. The ARO for the University is primarily associated with the cost of removal and disposal of asbestos and fuel tanks. As a result of implementing FIN 47 in fiscal year 2006, the University recorded a cumulative effect of change in accounting principle of $2,355,000.

17. Commitments

The University's contractual commitments for capital expenditures totalled approximately $3,303,000 at June 30, 2007, and were comprised of the following (in thousands):

Co-Op renovation	$ 703
Lewis Hall renovations	402
Newcomb Hall design	580
Wilson Stadium project	591
Various other projects	1,027
	$ 3,303

Subsequent to June 30, 2007, the University entered into an additional contract for the Wilson Stadium Project in the amount of $12,600,000.

18. Concentration Risk

Financial instruments that potentially subject the University to concentration of risk consist primarily of an equity investment in a large U.S. company. This investment comprised 78% and 77% of total funds held in trust by others as of June 30, 2007 and 2006, respectively. At times during the year, the University maintains cash balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits.

The University receives revenues from U.S. Government grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs, which are subject to audit, and are reported to the U.S. Government. Recovery of indirect costs is based on predetermined rates negotiated with the government. The University is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the financial statements.