KPMG

THE WASHINGTON AND LEE UNIVERSITY

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1710
10 S. Jefferson Street
Roanoke, VA 24011-1331

Independent Auditors' Report

The Board of Trustees
The Washington and Lee University:

We have audited the accompanying statement of financial position of The Washington and Lee University (the University) as of June 30, 2009, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2008 financial statements, and, in our report dated October 27, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Washington and Lee University as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2(r) and 9 to the financial statements, the University adopted the provisions of FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, as of July 1, 2008.

As discussed in notes 2(r) and 20 to the financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended, as of July 1, 2008.

KPMG LLP

October 28, 2009

THE WASHINGTON AND LEE UNIVERSITY

Statement of Financial Position

June 30, 2009 (with comparative information as of June 30, 2008)

(In thousands)

Assets		**2009**	**2008**
Cash and cash equivalents	$	3,335	9,924
Accounts and other receivables		1,523	1,823
Notes receivable, net *(note 3)*		4,687	4,058
Contributions receivable, net *(note 4)*		119,415	118,628
Inventories		895	901
Investments *(notes 8, 14 and 20)*		706,138	840,822
Funds held in trust by others *(notes 10, 18 and 20)*		272,461	303,214
Assets restricted to investment in land, buildings, and equipment *(note 5)*		2,809	2,354
Land, buildings, and equipment, net *(note 5)*		199,214	198,736
Debt issuance costs, net		871	913
Total assets	$	1,311,348	1,481,373
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables *(notes 11 and 20)*	$	5,355	7,496
Accrued compensation		2,123	1,368
Student and other deposits		1,061	1,050
Deferred revenue		1,755	1,533
U.S. Government grants refundable		1,998	1,966
Split interest agreement obligations *(note 14)*		57,492	76,450
Asset retirement obligations		2,832	2,770
Postretirement benefit obligation *(note 16)*		11,499	9,653
Long-term debt *(note 11)*		122,750	126,117
Total liabilities		206,865	228,403
Net assets *(note 9)*:			
Unrestricted		215,304	558,765
Temporarily restricted *(note 6)*		258,754	73,881
Permanently restricted *(note 7)*		630,425	620,324
Total net assets		1,104,483	1,252,970
Commitments and contingencies *(notes 8, 17 and 19)*			
Total liabilities and net assets	$	1,311,348	1,481,373

See accompanying notes to financial statements.

THE WASHINGTON AND LEE UNIVERSITY

Statement of Activities

Year ended June 30, 2009 (with summarized comparative information for the year ended June 30, 2008)

(In thousands)

	2009				2008
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenue and gains:					
Tuition and fees	$ 78,130	—	—	78,130	75,908
Less donor funded student financial aid	(17,828)	—	—	(17,828)	(16,338)
Less institutionally funded student financial aid	(5,735)	—	—	(5,735)	(4,909)
Net tuition and fees	54,567	—	—	54,567	54,661
Endowment return allocated to operations *(note 8)*	30,142	3,903	—	34,045	30,804
Other investment income *(note 8)*	547	190	—	737	1,461
Distributions from funds held in trust by others *(note 10)*	9,056	65	—	9,121	8,326
Contributions	7,764	—	—	7,764	11,807
Auxiliary enterprises (net of $1,259 and $1,041 of institutionally funded student financial aid)	15,293	—	—	15,293	14,864
Governmental and other grants	—	2,969	—	2,969	2,838
Other	445	34	—	479	556
Net assets released from restrictions *(note 12)*:					
Satisfaction of program restrictions	9,511	(9,511)	—	—	—
Satisfaction of equipment acquisition restrictions	339	(339)	—	—	—
Total operating revenue and gains	127,664	(2,689)	—	124,975	125,317
Operating expenses *(note 13)*:					
Instruction	57,955	—	—	57,955	53,636
Research	2,387	—	—	2,387	1,951
Public service	804	—	—	804	661
Academic support	17,120	—	—	17,120	14,824
Financial aid	2,335	—	—	2,335	1,646
Student services	12,055	—	—	12,055	11,424
Institutional support	17,775	—	—	17,775	16,251
Auxiliary enterprises	17,560	—	—	17,560	16,808
Total operating expenses	127,991	—	—	127,991	117,201
Change in net assets from operating activities	(327)	(2,689)	—	(3,016)	8,116
Nonoperating activities:					
Investment returns, net of amount allocated to operations *(note 8)*	(70,751)	(100,182)	(1,519)	(172,452)	(17,040)
Change in value of funds held in trust by others	—	(3,856)	(26,887)	(30,743)	(5,764)
Split interest agreements, net	(70)	2,014	959	2,903	(3,161)
Contributions *(note 4)*	—	17,412	38,501	55,913	27,286
Other, net	—	—	157	157	66
Net assets released for fixed asset acquisitions *(note 12)*	5,127	(5,127)	—	—	—
Postretirement (charge) credit other than benefit cost *(note 16)*	(1,249)	—	—	(1,249)	922
Redesignated funds	2,202	(1,092)	(1,110)	—	—
Total nonoperating activities	(64,741)	(90,831)	10,101	(145,471)	2,309
Change in net assets before reclassification	(65,068)	(93,520)	10,101	(148,487)	10,425
Reclassification of net assets due to adoption of FSP 117-1 *(note 2(r))*	(278,393)	278,393	—	—	—
Change in net assets	(343,461)	184,873	10,101	(148,487)	10,425
Net assets:					
Beginning of year	558,765	73,881	620,324	1,252,970	1,242,545
End of year	$ 215,304	258,754	630,425	1,104,483	1,252,970

See accompanying notes to financial statements.

THE WASHINGTON AND LEE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2009 (with comparative information for the year ended June 30, 2008)

(In thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(148,487)	10,425
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Realized and unrealized losses (gains) on investments		143,709	(1,686)
Unrealized losses on funds held in trust by others		31,055	4,667
Depreciation, amortization and accretion		9,086	8,524
Actuarial losses on annuity obligations, net		3,079	2,519
Contributions of investments		(14,640)	(18,880)
Contributions restricted for long-term investment		(40,231)	(23,974)
Interest and dividends restricted for long-term investment		(1,478)	(1,750)
Changes in operating assets and liabilities:			
Accounts and other receivables, net		(329)	(1,222)
Contributions receivable, net		(787)	14,699
Inventories		6	(171)
Accounts payable and other accrued liabilities		459	15
Student and other deposits		11	(253)
Deferred revenue		222	(74)
U.S. Government grants refundable		32	(3)
Split interest agreement obligations		(4,421)	3,560
Net cash and cash equivalents used in operating activities		(22,714)	(3,604)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment		(9,627)	(22,218)
Purchases of investments restricted to land, buildings, and equipment		(4,848)	(5,124)
Proceeds from sale of investments		221,298	1,519,440
Purchases of investments		(223,402)	(1,505,210)
Net cash and cash equivalents used in investing activities		(16,579)	(13,112)
Cash flows from financing activities:			
Interest and dividends restricted for long-term investment		1,478	1,750
Proceeds from contributions restricted for long-term investment in endowment and plant		40,231	23,974
Payments of split interest agreements		(5,805)	(6,443)
Payments on long-term debt		(3,200)	(3,538)
Net cash and cash equivalents provided by financing activities		32,704	15,743
Net decrease in cash and cash equivalents		(6,589)	(973)
Cash and cash equivalents:			
Beginning of year		9,924	10,897
End of year	$	3,335	9,924
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	6,240	6,417
Noncash investing and financing activities:			
Contributions of investments	$	14,640	18,880

See accompanying notes to financial statements.

(1) Description of 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

(a) Basis of Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting.

(b) Classification of Net Assets

Based on the existence or absence of donor-imposed restrictions, the University's net assets have been grouped into the following three classes:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets whose use 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 whose use 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 10) 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.

(c) Summarized Comparative Information

The statement of activities includes certain summarized comparative information for the year ended June 30, 2008 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

(d) Cash and Cash Equivalents

The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except those cash equivalents held by investment managers as part of their long-term investment strategy.

(e) Inventories

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

(f) Investments

Investments in marketable equity securities and all investments in debt securities are reported at fair value based on quoted market prices at the reporting date.

Other investments, such as hedge fund investments, private equity and venture capital, natural resource and real estate investments, are reported at estimated fair value, based on valuations provided by external investment managers. Because these alternative investments are not readily marketable, their estimated fair value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from currently reported fair values.

Investments are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the University's financial statements.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date. All investment income is reported in the period earned as 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 (the Board) approved spending policy for the endowment fund is included in the endowment returns allocated to operations in the statement of activities. Any excess of income earned over the approved spending amount is retained in the endowment pool.

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 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.

(g) Split Interest Agreements

The University records split interest agreements such as charitable remainder trusts and charitable lead trusts in accordance with the AICPA's *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 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,

(Continued)

amortization of the discount or to use a current discount rate. 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 statement of financial position.

The University also manages gift annuities, which consist of nontrust 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 statement 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 statement 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 statement 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 statement of financial position.

(h) Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession nor under the control of the University, 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.

(i) Land, Buildings, and Equipment

Land, buildings, and equipment, including 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 land improvements (15-30 years), 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. 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.

(Continued)

(j) Classification of Gifts

Contributions, including unconditional promises to give, 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 records gifts of cash and other assets at their fair value as restricted support if they are received with donor stipulations that limit their use. 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.

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 “redesignated funds” in the statement of activities.

(k) Contributions Receivable

The University records a receivable to reflect the unconditional promises of donors to make future contributions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using discount rates applicable to the years in which the promises are received. 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.

(l) Asset Retirement Obligations

The University has recorded a liability for its asset retirement obligations (ARO), although the exact timing and method of settlement are unknown. The ARO was 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.

(m) Tuition and Fees

Tuition and fee revenues are recorded on the statement of activities net of student financial aid as unrestricted revenue. 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.

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(n) 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.

Operations and maintenance of plant expenses are divided into those used for the total institution not charged back to the operating units, and those 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.

(o) Operations

Operating revenues and expenses include all transactions that increase or decrease net assets, except those associated with long-term gifts for endowment and plant. Operating revenues include allocations appropriated in accordance with the University's endowment spending policy, as reflected in the statement of activities as endowment return allocated to operations.

(p) Derivative Instruments

All derivative instruments are recognized as either assets, included in accounts and other receivables, or liabilities, included in accounts and other payables, in the statement of financial position at their respective fair values. Changes in the fair value of derivative instruments are recorded as other nonoperating 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 for all such activities.

(q) 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 conducted by the University that are considered unrelated business activities which are not exempt from federal and state income tax. The University files timely federal and state returns for these activities and makes the necessary tax payments, if applicable. The University believes that no significant uncertain tax positions have been taken in its tax returns.

(r) New Accounting Pronouncements

Effective July 1, 2008, the University adopted SFAS No. 157, *Fair Value Measurements*, as amended, for fair value measurements of financial assets and financial liabilities. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also expands disclosures about fair value measurements (note 20).

In September 2009, the FASB issued Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12). The amendments in ASU 2009-12 clarify that investors are permitted, as a practical expedient, to estimate the fair value of investments in certain entities for which the investment does not have a readily determinable fair value using net asset value per share of the investment or its equivalent. The amendments in ASU 2009-12 also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in ASU 2009-12, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments (for example, a contractual commitment by the investor to invest a specified amount of additional capital at a future date to fund investments that will be made by the investee), and the investment strategies of the investees. The amendments in ASU 2009-12 are effective for the University's fiscal year ending June 30, 2010. As permitted, the University has elected to early adopt the measurement amendments in ASU 2009-12 for the year ended June 30, 2009, and defer the adoption of the new disclosure provisions until the year ending June 30, 2010.

In August 2008, the FASB issued FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective July 1, 2008, the Commonwealth of Virginia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. A key component of FSP 117-1 is a requirement to classify the portion of donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The University adopted FSP 117-1 as of July 1, 2008 and has reported the resulting net asset reclassification as a separate line item within the 2009 statement of activities. The disclosure requirements of FSP 117-1 are set forth in note 9.

Effective June 30, 2009, the University adopted SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes principles and requirements for subsequent events and applies to accounting for a disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The University evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2009 financial statements through October 28, 2009, the date the financial statements were available to be issued. The adoption of SFAS No. 165 had no impact on the University's financial statements.

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(s) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 nontraditional investments, certain real estate holdings, post-retirement benefits, land, buildings and equipment, and accounts and contributions receivable. In the near term, actual results could differ from those estimates.

(3) Notes Receivable

Notes receivable are carried at face value, less an allowance for doubtful accounts of $401,000 and $405,000 at June 30, 2009 and 2008, respectively. The interest rates on federal student financial aid range from 3% to 5%. Maturity dates range up to 10 years.

(4) Contributions Receivable

Contributions receivable, which are reported net of an allowance for uncollectible amounts and a present value discount, are expected to be collected as follows at June 30, 2009 and 2008 (in thousands):

		2009	**2008**
Receivable in less than one year	$	54,472	25,135
Receivable in one year to five years		70,850	107,606
Receivable in over five years		2,341	1,093
Total contributions receivable, gross		127,663	133,834
Less allowance for uncollectible contributions		(1,211)	(1,215)
Total contributions receivable, net of allowance		126,452	132,619
Discount to reduce contributions to present value		(7,037)	(13,991)
Total	$	119,415	118,628

The University discounts contributions to present value utilizing a discount rate on the date of the pledge, which remains constant for the life of a pledge. The discount rates ranged from 0.44% to 8.46% at June 30, 2009.

As of June 30, 2009, gross contributions receivable include $80,534,000 remaining to be collected on two permanently restricted contributions. 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.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2009 and 2008 consist of the following (in thousands):

		2009	2008
Land	$	2,712	2,288
Land improvements		7,992	7,585
Buildings and improvements		266,283	247,270
Equipment		38,417	37,314
Art properties		2,328	2,281
		317,732	296,738
Less accumulated depreciation		(124,297)	(115,488)
		193,435	181,250
Construction in progress		5,779	17,486
Total	$	199,214	198,736

The University has $2,809,000 and $2,354,000 in restricted assets at June 30, 2009 and 2008, respectively. The cash and other assets are restricted for use under the terms of agreements with donors that limits the funds to investments in land, building, and equipment.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes (in thousands):

		2009	2008
Financial aid	$	8,120	13,500
Program support		42,011	40,940
Buildings and equipment		23,159	15,552
Other		2,103	3,889
Accumulated appreciation on donor-restricted endowment funds		183,361	—
Total	$	258,754	73,881

Program support is funding received either by endowment or outside agency that enhances a department or program’s ability to support activities over what is available to them in the University’s general operating budget.

Accumulated appreciation on donor-restricted endowment funds is a new category related to the adoption of FSP 117-1 that requires the appreciation of permanently restricted net assets be shown as temporarily restricted net assets until appropriated by the Board.

(7) Permanently Restricted Net Assets

The return earned on permanently restricted net assets at June 30, 2009 and 2008 is available to support the following (in thousands):

		2009	2008
Financial aid	$	213,437	204,445
Program support		411,592	408,245
Other		5,396	7,634
Total	$	630,425	620,324

(8) Investments

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, 2009 and 2008 for each class of net assets is as follows (in thousands):

		Investment pool	Annuity and life income	Other	Total
2009:					
Net assets:					
Unrestricted	$	145,130	—	20,125	165,255
Temporarily restricted		187,044	54,787	—	241,831
Permanently restricted		277,646	21,406	—	299,052
Investments as of June 30, 2009	$	609,820	76,193	20,125	706,138
2008:					
Net assets:					
Unrestricted	$	495,802	—	14,027	509,829
Temporarily restricted		2,735	74,863	—	77,598
Permanently restricted		228,409	24,986	—	253,395
Investments as of June 30, 2008	$	726,946	99,849	14,027	840,822

The University has made commitments to certain investments for which capital contributions are drawn over time. The outstanding commitments to these investments were $23,398,000 as of June 30, 2009.

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. 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 mortgage loans, included in investments on the statement of financial position, are carried at fair value of $52,344,000 and $45,112,000 as of June 30, 2009 and 2008, 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, 2009 and 2008 was approximately $55,837,000 and $51,952,000, respectively.

Prior to fiscal year 2008, the University invested in multiple managers to meet the University's long-term asset allocation. In January 2008, the University initiated a transition from investing in multiple managers to primarily investing in one manager, Makena Capital Management, LLC (Makena). Makena is the primary investment asset manager for the University. Makena offers a single pooled investment fund utilizing a multi-asset manager structure.

As of June 30, 2009, the University has $525,828,000 of investments in both marketable and non-marketable alternative investment funds that are reported at estimated fair value.

Of the $525,828,000 of total alternative investments, $57,674,000 represents the marketable alternative investments that are redeemable at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the University’s interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University’s interest in the funds.

The remaining $468,154,000 represents the non-marketable alternative investments and, although a secondary market exists for non-marketable investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. Therefore, if the redemption rights in the funds were restricted or eliminated and the University was to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported net asset value, and the discount could be significant.

Investments, at estimated fair value, are comprised of the following at June 30, 2009 and 2008 (in thousands):

	2009				2008
	Endowment	Life income and annuities	Other	Total	2008 Total
Short-term investments	$ 27,824	1,200	370	29,394	30,334
Equities	9,522	60,395	306	70,223	97,719
Fixed income	17,316	10,759	168	28,243	15,831
Real assets	49,554	2,540	989	53,083	54,404
Emerging markets	—	2,509	—	2,509	3,229
Hedge funds	26,460	—	113	26,573	71,670
Mortgage loans to staff and fraternities	52,121	—	223	52,344	45,112
Multi-Asset Class *(see above)* *	408,769	—	1,746	410,515	480,233
Other alternative investments	33,113	—	141	33,254	42,290
Total	$ 624,679	77,403	4,056	706,138	840,822

* This represents the University's investments in Makena. Makena's Multi-Asset Class portfolio is diversified across geographics, strategies, and over 150 best-of-class investment managers.

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

	2009				2008
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008 Total
Income on long-term investments	$ 1,414	1,278	1,451	4,143	10,910
Net realized and unrealized (loss) gain	(42,023)	(97,997)	(3,689)	(143,709)	1,686
Other investment income	547	630	719	1,896	2,629
Total investment return	(40,062)	(96,089)	(1,519)	(137,670)	15,225
Endowment return allocated to operations (spending policy distributions)	(30,142)	(3,903)	—	(34,045)	(30,804)
Other investment income allocated to operations	(547)	(190)	—	(737)	(1,461)
Deficiency of investment return over spending rate amount	$ (70,751)	(100,182)	(1,519)	(172,452)	(17,040)

(9) Endowment

Endowment is a term used commonly to refer to the resources that have been restricted by donors or designated by the Board of Trustees that will be invested to provide future revenue to support the University's activities. As of June 30, 2009, the University holds 1,153 endowment funds, of which 1,067 are true endowments (restricted by the donor) and 86 are quasi-endowments (designated by the Board). The fair value of true endowments at June 30, 2009 and 2008 was $448,187,000 and $507,095,000, respectively. The fair value of quasi-endowments at June 30, 2009 and 2008 was $176,493,000 and $216,209,000, respectively.

Interpretation of Relevant Law

Based on the interpretation of Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA) by the Board of Trustees of the University, the guidance in FSP 117-1, and absent explicit donor stipulations to the contrary, the University classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor, as permanently restricted net assets.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net assets consist of the following at June 30, 2009 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (13,909)	184,513	277,583	448,187
Board-designated endowment funds	176,493	—	—	176,493
Total endowed net assets	$ 162,584	184,513	277,583	624,680

Included in temporarily restricted net assets at June 30, 2009 is $183,361,000, which is otherwise unrestricted in nature and will be available to pay operating expenses or debt service once appropriated by the Board of Trustees.

(Continued)

Endowment net assets consist of the following at June 30, 2008 (in thousands):

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$	277,432	1,253	228,410	507,095
Board-designated endowment funds		216,209	—	—	216,209
Total endowed net assets	$	493,641	1,253	228,410	723,304

Changes in endowment net assets for the year ended June 30, 2009 are as follows (in thousands):

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$	493,641	1,253	228,410	723,304
Net assets reclassification due to adoption of FSP 117-1		(278,393)	278,393	—	—
Endowment net assets after reclassification		215,248	279,646	228,410	723,304
Investment return:					
Investment income		1,650	3,838	—	5,488
Net depreciation		(50,581)	(73,873)	—	(124,454)
Contributions		6,506	14	47,867	54,387
Appropriation for expenditure		(10,116)	(25,380)	1,451	(34,045)
Redesignations		(123)	268	(145)	—
Endowment net assets, June 30, 2009	$	162,584	184,513	277,583	624,680

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. Deficiencies of this nature that are reported in unrestricted net assets were $13,909,000 and $960,000 as of June 30, 2009 and 2008, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current

(Continued)

yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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 fair values at June 30, or a 5% ceiling related to the June 30 fair value. This single formula model is often referred to as a constant growth spending formula.

(10) Funds Held in Trust by Others

The majority of the funds held in trust by others (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, 2009 and 2008, the fair value of the University's interest was reported by the trustees as $235,343,000 and $254,881,000, respectively. During the years ended June 30, 2009 and 2008, the University received distributions of $7,742,000 and $7,021,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At both June 30, 2009 and 2008, the University maintained an interest in 45 other trusts with fair values reported by the trustees of $37,118,000 and $48,333,000, respectively, and received distributions for the years ended June 30, 2009 and 2008 of $1,379,000 and $1,305,000, respectively.

(11) Long-Term Debt

Long-term debt consists of the following obligations at June 30, 2009 and 2008 (in thousands):

	Final maturity	Interest rates	2009	2008
Virginia College Building Authority:				
1998 Note, includes premium of $1,276 and $1,322, respectively	January 2031	5.03% – 5.05%	$ 53,481	53,527
2001 Note, includes premium of $2,411 and $2,512, respectively	January 2034	5.00% – 5.75%	45,411	45,512
2006 Note, includes premium of $341 and $361, respectively	January 2016	4.00% – 5.00%	16,272	18,026
Industrial Development Authority:				
1997 Note	December 2012	Variable	2,532	3,184
2003 Note	April 2018	Variable	2,304	2,568
SunTrust Bank:				
2003 Commercial Note	December 2008	Variable	—	3,300
Bank of America				
2008 Commercial Note	January 2014	2.76%	2,750	—
			$ 122,750	126,117

Aggregate principal payments due for the next five fiscal years are: 2010 – $3,151,000; 2011 – $3,188,000; 2012 – $3,047,000; 2013 – $2,560,000; 2014 – $1,983,000 and thereafter – $104,793,000.

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 continue until maturity in 2012. Interest on the note is payable semi-annually at variable rates equal to 67% of the LIBOR plus 0.20% (the Variable Rate). Concurrently with the issuance, the University entered into an interest rate swap agreement (Swap 1) 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%. Swap 1 is used to minimize cash flow fluctuations of interest payments caused by the volatility of LIBOR. The change in fair value of Swap 1 was a loss of approximately $18,000 and $65,000 for the years ended June 30, 2009 and 2008, respectively. The fair value of Swap 1 as of June 30, 2009 and 2008 was $172,000 and $154,000, respectively, in favor of the financial institution.

In April 1998, the Virginia College Building Authority (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 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 due 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%. 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. The change in fair value of Swap 2 was a loss of approximately $89,000 and $112,000 for the years ended June 30, 2009 and 2008, respectively. The fair value of Swap 2 as of June 30, 2009 and 2008 was $115,000 and $26,000, respectively, in favor of the financial institution.

In December 2003, the University entered into a refinancing of its 1998 commercial taxable loan for the principal balance of $6,000,000. The 2003 Commercial Note is payable in quarterly installments with interest computed at a rate equal to LIBOR plus 0.60%. 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 was used to minimize cash flow fluctuations of interest payments caused by the volatility of LIBOR. The change in fair value of Swap 3 was a gain of approximately $26,000 and a loss of approximately $122,000 for the years ended June 30, 2009 and 2008, respectively. The fair value of Swap 3 as of June 30, 2008 was $26,000, in favor of the financial institution. The 2003 Commercial Note was refinanced in December 2008 and Swap 3 expired.

In August 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; (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 and semi-annual interest payments on this note 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 with direction of the University prior to their respective maturities in whole or in part at any time, on or after July 1, 2016.

In December, 2008, the University entered into a refinancing of its 2003 commercial taxable loan for the principal balance of $3,000,000. The 2008 Commercial Note is payable in monthly installments of $50,000 plus interest based on a fixed annual rate of 2.76%.

(12) 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 year ended June 30, 2009 were as follows (in thousands):

Financial aid	$	2,099
Program support		2,255
Other		5,157
		9,511
Buildings and equipment		5,466
Total	$	14,977

(13) Expenses

Expenses for the years ended June 30, 2009 and 2008 were incurred for the following (in thousands):

		2009	2008
Salaries, wages and benefits	$	74,756	66,689
Supplies and services		33,570	31,417
Depreciation		9,088	8,581
Costs of sales, auxiliary enterprises		4,647	4,447
Interest		5,930	6,067
Total	$	127,991	117,201

(14) 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 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, 2009, the fair value of the Trusts' assets and the related income for the year then ended were $32,604,000 and $835,000, respectively. As of June 30, 2008, the fair value of the Trusts' assets and the related income for the year then ended were $44,995,000 and $835,000, respectively. The fair value of the charitable lead annuity trusts agreements is included in investments and the associated liabilities to beneficiaries are included in split interest agreement obligations in the statement of financial position.

(15) Retirement Plan

Academic and nonacademic 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 approximately $4,636,000 and $4,176,000 for the years ended June 30, 2009 and 2008, respectively.

(16) 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. 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 Plan is unfunded.

The components of net periodic postretirement benefit cost for the years ended June 30, 2009 and 2008 were as follows (in thousands):

		2009	2008
Service cost (benefits attributed to employee service during the year)	$	367	387
Interest cost on accumulated postretirement benefit obligation		615	637
Amortization of actuarial gain and prior service cost		(9)	(72)
Net periodic postretirement benefit cost	$	973	952

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, 2009 and 2008 was 6.25%. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 9.5% in 2009, decreasing to 5% over the next ten years. Effective September 1, 2008, the postretirement benefit plan changed from self-insured to fully insured. In conjunction with this change, 1) the retiree premium rate decreased from 40% of the plan costs to 34% of the Medicare Advantage premium rate, and 2) the lifetime benefit maximum changed from an accumulation of claims paid to an accumulation of employer premiums paid. The increase in APBO as a result of these changes is amortized in benefit costs using the straight-line method over ten years, which is the approximate average of future years of service to full eligibility for active participants. As a result of the change to a fully insured plan, the University will no longer receive a prescription drug subsidy under Medicare Part D.

The following information summarizes activity in the unfunded postretirement benefit plan for the years ended June 30, 2009 and 2008 (in thousands):

		2009	2008
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	9,653	9,978
Service cost		367	387
Interest cost		615	637
Prior service cost for plan changes		1,548	—
Actuarial gain		(307)	(994)
Net benefits paid		(377)	(355)
Accumulated benefit obligation, end of year	$	11,499	9,653
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:			
Actuarial gain and prior service cost, net	$	1,454	2,703

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2010 – $328,000; 2011 – $403,000; 2012 – $486,000; 2013 – $585,000; and 2014 – $679,000. An additional $4,792,000 is expected to be paid for the fiscal years 2015 through 2019.

Total employer and participant contributions are $377,000 and $155,000, respectively, for the year ended June 30, 2009. Total benefits paid for the year ended June 30, 2009 are $532,000. The employer and participant contributions for the year ending June 30, 2010 are expected to be $328,000 and $155,000, respectively, for a total of $483,000 in benefits paid. The expense discount rate for both June 30, 2009 and 2008 is 6.25%. The measurement date was June 30, 2009.

(17) Commitments

The University's contractual commitments for capital expenditures totaled approximately $6,667,000 at June 30, 2009, and were comprised of the following (in thousands):

Colonnade Renovation	$	5,503
Sorority House Construction		259
Fraternity House fire restoration		192
Jewish Life Center – Hillel House		197
Various other projects		516
	$	6,667

Subsequent to June 30, 2009, the University entered into an additional contractual commitment for the Jewish Life Center – Hillel House for approximately $2,175,000.

(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 81% and 79% of total funds held in trust by others as of June 30, 2009 and 2008, respectively.

At times during the year, the University maintains cash balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits.

(19) Contingencies

The University receives revenues under 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.

From time to time, the University is involved in various legal proceedings which is in the normal course of operations. In management's opinion, the University is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, change in net assets and/or liquidity of the University.

(20) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of the University's financial instruments.

- **Cash and cash equivalents, student accounts receivables, other receivables, accounts payable, other payables, and accrued liabilities:** The carrying amounts approximate fair value because of the short maturity of these financial instruments.

- **Notes receivable:** The University has estimated the net realizable value of notes receivable, evaluated collection history, and has concluded the carrying amount approximates fair value.

- **Contributions receivable and split interest agreement obligations:** The University has estimated the net realizable value of contributions receivable and split interest agreement obligations, and has concluded the carrying amounts approximate fair value. The discount rates used in calculation of split interest agreement obligations ranged from 2.60% to 10.60% at June 30, 2009.

- **Investments and funds held in trust by others:** The fair values of marketable equity and debt securities are determined using quoted market prices at the reporting date multiplied by the quantity held. The fair value of mortgage loans to exempt employees is determined as the present value of future contractual cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. The discount rate approximates rates currently offered by local lending institutions for loans of similar terms with comparable credit risk. The fair values of other investments without a readily determinable fair value, such as hedge fund investments, private equity and venture capital, natural resource and real estate investments, are estimated based on the investment's net asset value of shares or units held by the University at the reporting date as a practical expedient. The various net asset values are based on valuations provided by external investment managers, which are reviewed by the University for reasonableness. Short-term investments are comprised of short-term fixed income securities. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

- **Interest rate swaps:** The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data, adjusted to reflect nonperformance risk of both the counterparty and the University.

- **Long-term debt:** The estimated fair value of the University's long-term debt was $127,200,000 and $130,431,000 as of June 30, 2009 and 2008, respectively. Fair values for 2009 and 2008 were estimated based on an average interest rate of 4.32% and 4.47%, respectively, the bond buyer municipal index rate for June 30, 2009 and 2008. 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, reflecting average interest rates that are slightly above current rates for similar indebtedness.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(b) Fair Value Hierarchy

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 (in thousands):

		Total	Fair Value Measurements at Reporting Date Using		
		June 30, 2009	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
Short-term investments	$	29,394	28,558	836	—
Equities		70,223	61,899	20	8,304
Fixed income		28,243	27,964	37	242
Real assets		53,083	—	5,901	47,182
Emerging markets		2,509	2,509	—	—
Hedge funds		26,573	—	—	26,573
Mortgage loans to staff and fraternities		52,344	—	52,344	—
Multi-Asset Class		410,515	—	—	410,515
Other alternative investments		33,254	—	—	33,254
Total investments		706,138	120,930	59,138	526,070
Funds held in trust by others		272,461	—	—	272,461
Total assets	$	978,599	120,930	59,138	798,531
Liabilities:					
Interest rate swaps	$	287	—	287	—
Total liabilities	$	287	—	287	—

The University owns interests in alternative investment funds rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3, even though the underlying securities may not be difficult to value or may be readily marketable. Because net asset value is used as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the University's ability to redeem all or a portion of its interest in each fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The following table presents the University's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009 (in thousands):

		Investments	Funds held in trust by others	Total
Beginning balance at July 1, 2008	$	667,975	303,214	971,189
Realized losses		(4,248)	—	(4,248)
Unrealized losses		(136,311)	(21,934)	(158,245)
Net purchases		82,458	—	82,458
Contributions		—	302	302
Net sales		(83,804)	—	(83,804)
Distributions		—	(9,121)	(9,121)
Ending balance at June 30, 2009	$	526,070	272,461	798,531

For the period from July 1, 2008 to June 30, 2009, there was approximately $123,744,000 of net unrealized losses included in the change in net assets that were attributable to Level 3 assets still held at June 30, 2009.