The Washington and Lee University

Financial Statements

As of and for the year ended June 30, 2005
(with summarized financial information for the year ended June 30, 2004)

BOARD OF TRUSTEES

June 30, 2005

The Washington and Lee University
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As of and for the Years Ended June 30, 2005 and 2004

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 and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of The Washington and Lee University (the "University") as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended 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 audit. The prior year summarized 2004 comparative information has been derived from the University's June 30, 2004 financial statements, and in our report dated August 27, 2004, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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.

The financial statements include certain prior-year summarized comparative information 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, 2004, from which the summarized information was derived.

PricewaterhouseCoopers LLP

October 6, 2005, except for the last
paragraph of Note 2, as to
which the date is July 21, 2006

The Washington and Lee University
Statements of Financial Position
June 30, 2005 and 2004

(in thousands)	2005	2004
Assets		
Cash and cash equivalents	$ 11,085	$ 1,658
Accounts and other receivables	1,270	1,077
Notes receivable	3,246	3,288
Contributions receivable, net	32,987	38,333
Inventories	539	492
Investments	611,331	566,546
Funds held in trust by others	248,340	284,783
Assets restricted to investment in land, buildings, and equipment	2,220	4,205
Land, buildings, and equipment, net	167,953	164,143
Debt issuance costs	805	839
Total assets	$ 1,079,776	$ 1,065,364
Liabilities and Net Assets		
Accounts and other payables	$ 6,173	$ 4,700
Accrued compensation	1,624	1,299
Student and other deposits	674	644
Deferred revenue	1,325	1,175
U.S. Government grants refundable	2,066	2,088
Annuity obligations	34,128	36,606
Postretirement benefit obligation	10,697	10,463
Debt	118,099	120,106
Total liabilities	174,786	177,081
Net assets		
Unrestricted	428,061	382,085
Temporarily restricted	53,600	54,511
Permanently restricted	423,329	451,687
Total net assets	904,990	888,283
Total liabilities and net assets	$ 1,079,776	$ 1,065,364

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

The Washington and Lee University
Statements of Activities
Year ended June 30, 2005 (with summarized financial information for the year ended June 30, 2004)

(in thousands)	2005 Unrestricted	2005 Temporarily Restricted	2005 Permanently Restricted	2005 Total	2004 Total
Revenue, gains, and other support					
Tuition and fees	$ 55,532	$ -	$ -	$ 55,532	$ 49,126
Less donor funded student financial aid	(12,357)	-	-	(12,357)	(11,383)
Less institutionally funded student financial aid	(2,871)	-	-	(2,871)	(2,758)
Net tuition and fees	40,304	-	-	40,304	34,985
Investment return allocated to operations	24,925	2,057	-	26,982	25,152
Other investment income allocated to operations	419	53	-	472	906
Income from funds held in trust by others allocated to operations	6,266	74	-	6,340	5,473
Contributions	6,034	-	-	6,034	3,921
Auxiliary enterprises (net of $558 and $675 of institutionally funded student financial aid)	12,368	-	-	12,368	11,075
Governmental and other grants	160	1,520	-	1,680	1,734
Other	542	132	-	674	574
Net assets released from restrictions					
Satisfaction of program restrictions	4,762	(4,762)	-	-	-
Satisfaction of equipment acquisition restrictions	78	(78)	-	-	-
Total revenue, gains, and other support	95,858	(1,004)	-	94,854	83,820
Expenses and losses					
Instruction	42,717	-	-	42,717	40,879
Research	2,107	-	-	2,107	1,605
Public service	412	-	-	412	289
Academic support	12,133	-	-	12,133	11,200
Financial aid	2,189	-	-	2,189	915
Student services	8,748	-	-	8,748	8,392
Institutional support	12,475	-	-	12,475	10,838
Auxiliary enterprises	14,104	-	-	14,104	14,308
Capital campaign	-	-	-	-	838
Total expenses and losses	94,885	-	-	94,885	89,264
Change in net assets from operating activities	973	(1,004)	-	(31)	(5,444)
Non-operating activities					
Investment returns	39,374	682	2,329	42,385	51,044
Investment returns from funds held in trust by others	-	1,946	(38,147)	(36,201)	23,157
Change in value of split-interest agreements	17	1,124	1,038	2,179	(956)
Contributions	-	4,965	7,467	12,432	16,150
Other	-	-	10	10	(217)
Net assets released for fixed asset acquisition	5,522	(5,522)	-	-	-
Reclassification	198	(583)	385	-	-
Payments to beneficiaries	(108)	(2,519)	(1,440)	(4,067)	(4,467)
Total non-operating activities	45,003	93	(28,358)	16,738	84,711
Change in net assets	45,976	(911)	(28,358)	16,707	79,267
Net assets					
Beginning of year	382,085	54,511	451,687	888,283	809,016
End of year	$ 428,061	$ 53,600	$ 423,329	$ 904,990	$ 888,283

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

The Washington and Lee University
Statements of Cash Flows
Years ended June 30, 2005 and 2004

(In thousands)	2005	2004
Cash flows from operating activities		
Change in net assets	$ 16,707	$ 79,267
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Loss on sale of land, buildings and equipment	19	1
Realized (gains) on investments	(14,731)	(18,220)
Unrealized (gains) on investments	(41,350)	(47,470)
Unrealized (gains) losses on funds held in trust by others	36,201	(23,157)
Maturity of fund held in trust by others	242	203
Depreciation and amortization	7,382	7,267
Actuarial (gain) loss on annuity obligations, net	2,162	(956)
Contributions restricted for long-term investment	(12,432)	(16,150)
Interest and dividends restricted for long-term investment	(299)	(62)
Unrealized (gains) on interest rate swap	(43)	(509)
(Increase) decrease in:		
Accounts and other receivables	(193)	1,361
Notes receivable	42	106
Contributions receivable, net	5,346	7,843
Inventories	(47)	(1)
Increase (decrease) in:		
Accounts and other payables	1,473	(6,778)
Accrued compensation	325	51
Student and other deposits	30	55
Deferred revenue	194	211
U.S. Government grants refundable	(22)	12
Annuity obligations	(573)	6,838
Postretirement benefit obligation	234	632
Net cash and cash equivalents provided by (used in) operating activities	667	(9,456)
Cash flows from investing activities		
Purchases of land, buildings, and equipment	(11,307)	(9,699)
Proceeds from (purchase of) investments restricted to land, buildings, and equipment	1,985	(2,499)
Proceeds from sale of investments	265,435	403,990
Purchases of investments	(254,140)	(399,889)
Net cash and cash equivalents provided by (used in) investing activities	1,973	(8,097)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment:		
Interest and dividends restricted for long-term investment	299	62
Investment in endowment	6,936	13,349
Investment in plant	4,729	1,806
Investment subject to annuity agreements	767	995
	12,731	16,212
Other financing activities:		
Payments of annuity obligations	(4,067)	(4,467)
Proceeds from issuance of long-term debt	-	6,000
Payments on long-term debt	(1,877)	(7,642)
Net cash and cash equivalents provided by financing activities	6,787	10,103
Net increase (decrease) in cash and cash equivalents	9,427	(7,450)
Cash and cash equivalents		
Beginning of year	1,658	9,108
End of year	$ 11,085	$ 1,658
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 6,106	$ 6,138

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 No. 117, "Financial Statements of Not-for-Profit Organizations" (the "Statement"). This Statement specifies that financial statements provided by not-for-profit organizations include statements of financial position, statements of activities, and statements of cash flows. This Statement 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 the Statement, 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 and other inflows of 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
The University reports gifts of cash and other assets 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.

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 Statement 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 equivalents are stated at cost, which approximates fair value.

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 generally 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.

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 annuity 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. Upon termination of the trust, the University receives the portion of assets remaining in the trust as specified by the donor.

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 market value of the University's share of the assets is reflected in the Statement of Financial Position and the income (including unrealized appreciation/depreciation) is recorded in the Statement of Activities.

Contributions Receivable
The University accounts for contributions under Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" ("Statement 116"). Statement 116 requires the University to record a receivable to reflect the 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.

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. 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 deferred revenue on the Statements 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 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, 2004 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, 2004 from which the summarized information was derived.

Conditional Asset Retirement Obligations
In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 clarifies the definition and treatment of conditional asset retirement obligations as discussed in SFAS No. 143, Accounting for Asset Retirement Obligations. A conditional asset retirement obligation is defined as an asset retirement activity in which the timing and/or method of settlement are dependent on future events that may be outside the control of the company. FIN 47 states that a company must record a liability when incurred for conditional asset retirement obligations if the fair value of the obligation is reasonably estimable. FIN 47 is intended to provide more information about long-lived assets and future cash outflows for these obligations and more consistent recognition of these liabilities. FIN 47 is effective for fiscal years ending after December 15, 2005. The University is currently assessing the impact of the accounting requirement and will be implementing this standard in 2006.

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, 2005 and 2004, is as follows (in thousands):

	2005	2004
Less than one year	$ 9,560	$ 9,971
One year to five years	21,108	23,861
Over five years	8,392	10,911
Total contributions receivable, gross	39,060	44,743
Less allowance for uncollectible accounts	(330)	(383)
Total contributions receivable, net of allowance	38,730	44,360
Discount to reduce contributions to present value	(5,743)	(6,027)
Total	$ 32,987	$ 38,333

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, 2005 and 2004, the discount rates ranged from 1.91% to 8.42% and 1.17% to 8.42%, respectively.

4. Land, Buildings and Equipment

Land, buildings, and equipment (at cost) at June 30, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Land	$ 1,975	$ 1,975
Land improvements	7,319	5,734
Buildings	203,926	201,508
Equipment	33,263	32,273
Art properties	1,737	1,668
	248,220	243,158
Less accumulated depreciation	(90,453)	(83,058)
	157,767	160,100
Construction in process	10,186	4,043
Total	$ 167,953	$ 164,143

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2005 and 2004 are available for the following purposes (in thousands):

	2005	2004
Financial aid	$ 11,592	$ 12,171
General operations	30,485	27,398
Buildings and equipment	8,348	12,810
Other	3,175	2,132
Total	$ 53,600	$ 54,511

6. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2005 and 2004 are available to support the following (in thousands):

	2005	2004
Financial aid	$ 118,403	$ 109,970
General operations	291,913	328,972
Other	13,013	12,745
Total	$ 423,329	$ 451,687

7. Investments

Investments, which are generally carried at fair value, are comprised of the following at June 30, 2005 and 2004 (in thousands):

	2005	2004
Short-term investments	$ 21,493	$ 20,749
Domestic equities	132,688	164,797
International equities	103,052	86,842
U.S. Government and agency obligations	61,568	54,727
Corporate and other obligations	42,292	38,533
Energy natural resources	68,035	56,245
Other alternative investments	6,796	3,039
Hedge funds	103,904	70,512
Mortgage loans to exempt employees	39,155	35,690
Real estate trusts and partnerships	29,108	33,465
Land and other investments	3,240	1,947
Total	$ 611,331	$ 566,546

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 management of the respective funds provide the fair value of the investment.

The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2005 and 2004. 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, 2005 and 2004 for each class of net assets is as follows (in thousands):

2005	Investment Pool	Annuity and Life Income	Other	Total
Net assets				
Unrestricted	$ 381,711	$ -	$ 5,141	$ 386,852
Temporarily restricted	1,603	33,352	-	34,955
Permanently restricted	170,227	19,297	-	189,524
Investments, June 30, 2005	$ 553,541	$ 52,649	$ 5,141	$ 611,331
2004				
Net assets				
Unrestricted	$ 336,586	$ -	$ 12,230	$ 348,816
Temporarily restricted	1,345	35,354	-	36,699
Permanently restricted	160,583	20,448	-	181,031
Investments, June 30, 2004	$ 498,514	$ 55,802	$ 12,230	$ 566,546

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

	2005				2004
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Income on long-term investments	$ 10,061	$ 2,057	$ 299	$ 12,417	$ 9,542
Net realized and unrealized gain	54,238	29	1,814	56,081	65,690
Net split-interest agreements gain (loss)	17	1,124	1,038	2,179	(956)
Other investment income	419	706	216	1,341	1,870
Total investment return	64,735	3,916	3,367	72,018	76,146
Investment return allocated to operations (spending policy distributions)	(24,925)	(2,057)	-	(26,982)	(25,152)
Other investment income allocated to operations	(419)	(53)	-	(472)	(906)
Excess of investment earnings over spending rate amount	$ 39,391	$ 1,806	$ 3,367	$ 44,564	$ 50,088

As of June 30, 2005, 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, 2005.

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 that will be invested to provide future revenue to support the University's activities. The University holds 1,060 endowment funds of which 981 are true endowments (restricted by the donor) and 79 are quasi-endowments (designated by the Board).

Endowment Spending Formula

The Board-approved regular spending formula for the endowment provides for spending the lesser of either the prior-year allocation incremented by a Consumer Price Index-based inflator or 6% of the three-year average of market values at December 31, which is then tested against a ceiling related to the current market value. There also exists an enriched formula for one student financial aid endowment; it follows a similar methodology but uses a 12% cap on a three-year average. Beginning in the fiscal year 2002, the enriched formula for the one student financial aid endowment was reduced by one percent per year (8% for fiscal year 2004-05). This practice will continue in subsequent years until the spending rate of this endowment is equal to that of the traditional endowment. Finally, beyond the traditional endowment spending formula, a portion of the board-designated endowment is utilized for all principal and interest payments on long-term debt.

Allocations and the associated market values of the endowments that give rise to these allocations are noted below (in thousands):

	Allocation 2005	Market Value 06/ 30/ 05
Total allocation to operations based on standard spending formula	$ 17,125	$ 443,546
Less amount returned to corpus	(299)	-
Net allocation to operations based on standard spending formula	16,826	443,546
Enriched formula for specific financial aid endowment	1,310	17,252
Retirement of long-term debt	7,993	71,194
Total allocation to operations	$ 26,129	$ 531,992

Payout rate (defined as allocation divided by the beginning market value) was 4.29% under the normal spending formula, 8% under the student and enriched formula and 10.85% for the retirement of long-term debt. In aggregate, the payout rate for 2005 was 5.47% which was down from 5.83% in 2004.

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, 2005 and 2004, the market value of the University's interest was reported by the trustees as $209,038,000 and $248,622,000, respectively. During the years ended June 30, 2005 and 2004, the University received income of $5,259,000 and $4,726,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2005 and 2004, the University maintained an interest in 39 other trusts, with market values reported by the trustees of $39,301,000 and $36,161,000 and income of $1,081,000 and $747,000, respectively.

10. Debt

Long-term debt consists of the following obligations at June 30, 2005 and 2004 (in thousands):

	Final Maturity	Interest Rates	2005	2004
Virginia College Building Authority				
1994 Note, net of discount of $100 and $109, respectively	January 2024	4.1%-5.6%	$ 5,205	$ 5,661
1998 Note, includes premium of $1,448 and $1,486, respectively	January 2031	5.03%-5.05%	53,653	53,691
2001 Note, includes premium of $2,813 and $2,914, respectively	January 2034	5.0%-5.11%	45,813	45,913
Industrial Development Authority				
1997 Note	December 2012	Variable	4,971	5,520
2003 Note	March 2018	3.48%	3,357	3,621
Sun Trust Bank				
2003 Commercial Note	December 2008	Variable	5,100	5,700
			$ 118,099	$ 120,106

Aggregate principal payments due for the next five fiscal years are: 2006 - $1,922,000; 2007 - $1,979,000; 2008 - $2,035,000; 2009 - $4,795,000; 2010 - $1,401,000 and thereafter - $101,806,000.

The Virginia College Building Authority ("VCBA") has issued Educational Facilities Revenue Bonds and Revenue Refunding Bonds, the proceeds of which have been loaned to the University in exchange for its notes (the "Notes"). Bonds related to the 1994 Note are redeemable at the option of the University, in whole or in part, at a declining premium to par until December 31, 2005 and at par thereafter.

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 designated and qualifies as a cash-flow hedging instrument under Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement 133"). Upon adoption of Statement 133 on July 1, 2000, the University recorded the Swap's unrealized gain of approximately $139,000. The unrealized gain on the Swap for the year ended June 30, 2005 was approximately $66,000 and the unrealized gain for the year ended June 30, 2004 was approximately $336,000.

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 (the "Swap") 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%. 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 designated and qualifies as a cash-flow hedging instrument under FAS 133. The unrealized loss on the Swap for the year ended June 30, 2005 was approximately $56,000 and the unrealized gain for the year ended June 30, 2004 was approximately $182,000.

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 (the "Swap") on all $6,000,000 of its variable rate debt under the note payable to SunTrust Bank, at a fixed rate of 4.32%. 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 designated and qualifies as a cash-flow hedging instrument under FAS 133. The unrealized gain on the Swap for the year ended June 30, 2005 was approximately $34,000 and the unrealized loss for the year ended June 30, 2004 was approximately $9,000.

The estimated fair value of the University's long-term debt, including current maturities, was $123,901,000 and $124,660,000 as of June 30, 2005 and 2004, respectively. Fair market values for 2005 were estimated based on an interest rate of 4.29%, the bond buyer municipal index rate for June 30, 2005. The University received an assessment of the outstanding debt from a major underwriter. Their methodology structured the existing debt service cashflows 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, 2005 and 2004 were as follows (in thousands):

	2005	2004
Financial aid	$ 2,145	$ 810
General operations	1,327	641
Other	1,290	1,995
	4,762	3,446
Buildings and equipment	78	499
Total	$ 4,840	$ 3,945

12. Expenses

Expenses for the years ended June 30, 2005 and 2004 were incurred for the following (in thousands):

	2005	2004
Salaries, wages and benefits	$ 53,222	$ 50,744
Supplies and services	23,898	23,741
Depreciation	7,497	7,360
Costs of sales, auxiliary enterprises	3,805	3,360
Interest	5,781	3,098
Postretirement	682	961
Total	$ 94,885	$ 89,264

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, 2005, the market value of the Trusts' assets and the related income for the year then ended were $34,283,000 and $840,000, respectively. The market value of the Trusts' assets and the related income for the year ended June 30, 2004 were $36,223,000 and $819,000, respectively.

14. Retirement Annuity Contribution

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 $3,407,000 and $3,259,000 for the years ended June 30, 2005 and 2004, 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.

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.

Summary information on the University's plan as of June 30, 2005 and 2004 follows (in thousands):

	2005	2004
Accumulated postretirement benefit obligation as of June 30:		
Retirees	$ 3,309	$ 2,804
Full eligible, active plan participants	1,839	1,348
Other active plan participants	8,078	5,716
Unamortized actuarial (gain) loss	(2,529)	595
Postretirement benefit obligation	$ 10,697	$ 10,463

The unamortized 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 components of net periodic postretirement benefit cost for the years ended June 30, 2005 and 2004 were as follows (in thousands):

	2005	2004
Service cost (benefits attributed to employee service during the year)	$ 342	$ 423
Interest cost on accumulated postretirement benefit obligation	487	538
Amortization of actuarial gain	(147)	-
Net periodic postretirement benefit cost	$ 682	$ 961

The discount rate used in determining the accumulated postretirement benefit obligation ("APBO") as of June 30, 2005 and 2004 was 5.00% and 6.00%, respectively. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 9% in 2005, decreasing to 5% over the next ten years. Beginning January 1, 2005, contributions for retirees were increased to $32.00 per month, which represents 20% 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 four years to 40% of the premium paid by the University to fund the Plan.

If the health care cost trend rate assumptions were increased by 1%, the APBO as of June 30, 2005 would be increased by approximately $1,560,000. A decrease in these assumptions by 1% would result in the APBO decreasing by approximately $1,289,000. The effect of this change on the sum of the service cost and interest cost components of net periodic postretirement benefit cost for fiscal 2005 would be an approximate $163,000 increase or a $131,000 decrease, respectively.

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2006 - $340,000; 2007 - $325,000; 2008 - $353,000; 2009 - $375,000; 2010 - $393,000. An additional $2,829,000 is expected to be paid for the fiscal years 2011 through 2015.

16. Commitments and Other Matters

Commitments

The University's contractual commitments for capital expenditures totalled approximately $15,658,000 at June 30, 2005, and were comprised of the following (in thousands):

Arts and Music Building	$	14,646
Various Other Projects		1,012
	$	15,658

Concentration of 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 82% of total funds held in trust by others as of June 30, 2005 and 2004, 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.