PRICEWATERHOUSECOOPERS

William Marsh Rice University

Consolidated Financial Statements

June 30, 2008 and 2007

William Marsh Rice University
Index
June 30, 2008 and 2007

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees of
William Marsh Rice University

In our opinion, the accompanying consolidated statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of William Marsh Rice University (the "University") at June 30, 2008, 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 comparative information has been derived from the University's 2007 financial statements, and in our report dated October 15, 2007, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 24, 2008

William Marsh Rice University
Consolidated Statements of Financial Position
As of June 30, 2008 and 2007

(in thousands of dollars)	2008	2007
Assets		
Cash and cash equivalents	$ 3,967	$ 8,242
Accounts receivable and other assets	55,177	48,828
Pledges receivable, net	165,561	121,588
Investments	5,196,685	5,212,879
Property and equipment, net	845,874	669,501
Total assets	$ 6,267,264	$ 6,061,038
Liabilities		
Accounts payable and other liabilities	$ 96,318	$ 61,654
Notes and bonds payable	681,185	492,170
Actuarial liability for annuities payable	101,082	113,164
Government refundable loan program	6,911	6,808
Total liabilities	885,496	673,796
Net assets		
Unrestricted net assets	4,086,848	4,168,571
Temporarily restricted net assets	393,007	344,532
Permanently restricted net assets	901,913	874,139
Total net assets	5,381,768	5,387,242
Total liabilities and net assets	$ 6,267,264	$ 6,061,038

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

William Marsh Rice University
Consolidated Statement of Activities
For the Year Ended June 30, 2008
With Summarized Financial Information for the Year Ended June 30, 2007

	2008				2007
(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating revenues					
Investment returns distributed for operations	$ 190,642	$ 11,821	$ -	$ 202,463	$ 183,464
Student tuition and fees, net	83,632	-	-	83,632	75,148
Grants and contracts	82,331	-	-	82,331	80,149
Gifts and pledges	22,571	20,184	-	42,755	32,346
Gifts and trusts released from restrictions	15,289	(15,289)	-	-	-
Auxiliary enterprises	27,909	-	-	27,909	25,838
Other revenues	15,066	-	-	15,066	18,797
Total operating revenues	437,440	16,716	-	454,156	415,742
Operating expenses					
Educational and general activities	387,714	-	-	387,714	362,764
Auxiliary enterprises	36,472	-	-	36,472	33,335
Total operating expenses	424,186	-	-	424,186	396,099
Net operating income	13,254	16,716	-	29,970	19,643
Nonoperating changes					
Gifts and pledges for property and endowment	-	45,332	30,603	75,935	58,476
Investment returns, reduced by operating distribution above	(95,161)	(10,903)	(10,089)	(116,153)	683,764
Releases and other changes in restrictions on net assets	7,238	(5,412)	(1,826)	-	-
Change in liabilities due under life-income agreements	-	2,742	8,969	11,711	(12,661)
Other nonoperating changes	(7,054)	-	117	(6,937)	(2,223)
Net nonoperating changes	(94,977)	31,759	27,774	(35,444)	727,356
Net increase (decrease) in net assets	(81,723)	48,475	27,774	(5,474)	746,999
Net assets					
Beginning of year	4,168,571	344,532	874,139	5,387,242	4,640,243
End of year	$ 4,086,848	$ 393,007	$ 901,913	$ 5,381,768	$ 5,387,242

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

William Marsh Rice University
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

(in thousands of dollars)	2008	2007
Cash flows from operating activities		
(Decrease) increase in net assets	$ (5,474)	$ 746,999
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation of property and equipment	42,613	39,200
Loss on disposal of property and equipment	157	1,638
Net realized and unrealized investment gains	(19,467)	(801,304)
Contributions restricted for long term purposes and non-cash contributions	(100,214)	(73,509)
Actuarial (increase) decrease in life-income agreements	(11,711)	12,661
Change in fair value of interest rate swap	7,505	577
Change in		
Accounts receivable and other assets	(3,928)	(1,430)
Pledges receivable for current purposes	(10,075)	(2,798)
Accounts payable and accrued liabilities	8,381	8,844
Net cash used in operating activities	(92,213)	(69,122)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,448,277	921,369
Purchases of investments	(1,375,408)	(1,026,400)
Purchases of property and equipment	(201,313)	(120,624)
Net cash used in investing activities	(128,444)	(225,655)
Cash flows from financing activities		
Contributions restricted for long term purposes		
Endowment	18,651	13,653
Trusts and other	3,153	4,597
Property	5,460	2,960
Tax-exempt debt activity		
Proceeds from issuance of tax-exempt bonds	199,373	314,632
Proceeds from issuance of commercial paper	20,000	15,000
Payment of outstanding commercial paper	(28,800)	(61,100)
(Payment of) proceeds from taxable line of credit	(1,558)	1,070
Change in government refundable advances	103	(98)
Net cash provided by financing activities	216,382	290,714
Net decrease in cash and cash equivalents	(4,275)	(4,063)
Cash and cash equivalents		
Beginning of year	8,242	12,305
End of year	$ 3,967	$ 8,242

Noncash investing activities

The University had open accounts payables and accruals at June 30, 2008 and 2007 of $28,235,000 and $10,428,000, respectively, related to property, plant and equipment purchases.

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

William Marsh Rice University (the "University") is a Texas not-for-profit corporation that operates a private research university in Houston, Texas. The consolidated financial statements of the University as of June 30, 2008, and for the year then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries. All material transactions between the University and its subsidiaries have been eliminated.

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 organization's financial statements for the year ended June 30, 2007, from which the summarized information was derived. Certain reclassifications of 2007 information have been made to conform to the 2008 presentation.

Net Asset Categories

Standards for external financial reporting by not-for-profit organizations require that resources be classified for reporting purposes into three net asset categories according to donor-imposed restrictions. A description of the University's three net asset categories follows:

a. Unrestricted net assets and related activity include the following:

   (1) All revenues traditionally classified as unrestricted resources of the University, including tuition and fees, unrestricted gifts and income on unrestricted endowments, recovery of facility and administrative costs from grants and contracts, and auxiliary enterprises.

   (2) Revenues related to sponsored research and other sponsored program agreements, which are considered exchange transactions.

   (3) Gifts and endowment income with donor-imposed restrictions, if the restriction is anticipated to be met within the current fiscal year of the University.

   (4) Investments in plant assets.

   (5) All expenses of the University.

b. Temporarily restricted net assets include income from restricted endowments and gifts for which donor-imposed restrictions have not been met. The category also includes pledges receivable and life-income gifts for which the ultimate purpose of the proceeds is not permanently restricted.

c. Permanently restricted net assets include gifts, trusts and pledges on which donors have imposed the restriction that the corpus be maintained in perpetuity and only the investment return be made available for program operations. Gains and losses associated with trusts are added to the gift amount. Gifts restricted by donors to provide loans to students are also included in permanently restricted net assets.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Donor required matching from University funds and subsequent donor release or clarification of restrictions are also included in this category.

Contributions

Contributions, including unconditional promises to give and irrevocable trusts held by others under which the University is the beneficiary, are recognized as revenues in the period received or promised. Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets when the assets are placed in service. Promises to give that are subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted using a rate based on U.S. government obligations of similar duration. Amortization of the discount is recorded as contribution revenue.

Operating and Nonoperating Activities

The consolidated statement of activities reports the change in net assets from the University's operating and nonoperating activities. Operating activities exclude (a) gifts and pledges for property, endowment and term endowment (including annuity and life-income trusts), (b) release from restrictions of contributions given for the acquisition of property and equipment, (c) donor release of restrictions from permanently restricted net assets, (d) endowment return net of the University's operating needs as defined by University spending policy (Note 4) and (e) actuarial adjustments of annuities payable.

Cash and Cash Equivalents

The University considers all highly liquid financial instruments with an original maturity of 90 days or less to be cash and cash equivalents, except those amounts assigned to its investment managers and unspent commercial paper proceeds, which are classified as investments.

Investments

Investments are made within guidelines authorized by the University's Board of Trustees. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Ownership of marketable securities is recognized as of the trade date. Marketable securities transactions that have not settled are recognized as accounts receivable or accounts payable until the settlement date. Endowment return is calculated net of investment management expenses. Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices, except for investments for which quoted market prices are not available.

The estimated fair value of certain investments, such as private equity and other limited partnership interests, is based on valuations provided by the general partners or partnership valuation committees. Such valuations consider variables such as financial performance of investments, recent sale prices of similar investments and other pertinent information. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value. Because such investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These differences could be material.

The fair value of real estate, timber, oil and gas and other investments is estimated by professional appraisers or University management.

The University's investments are exposed to a number of risks including interest rate, market, and credit risks. Due to these risk exposures, it is possible that changes in the valuation of these investments may occur in the near term and that such changes could be material.

The terms of certain gifts of real property made by the founder of the University provided that all returns realized from these properties were to be invested to generate income for University purposes. Changes in the market value of these specific properties, whether gains or losses, are recorded as permanently restricted as required by the donor.

Property and Equipment
Educational property is stated at cost for purchased assets and fair market value at the date of donation in the case of gifts. Interest expense incurred during the period of construction of an asset for University use is capitalized until that asset is substantially completed and ready for use. The University depreciates its educational property assets (excluding works of art) using the straight-line method over their estimated useful lives. Repairs and maintenance of property and equipment are expensed as incurred. Equipment is removed from the records at the time of disposal.

Asset Retirement Obligations
The University recognizes asset retirement obligations (AROs) that are conditional on a future event, such as the legal obligation to safely dispose of asbestos when a building is remodeled or demolished.

The University measures conditional AROs at estimated fair value using a probability-weighted, discounted cash flow model with multiple scenarios, if applicable. The present value of weighted, discounted cash flows is calculated annually using credit-adjusted, risk-free rates applicable to the University in order to determine the estimated fair value of the conditional AROs.

Life-Income Agreements
Life-income agreements include charitable remainder trusts and gift annuities. Charitable remainder trusts hold donated assets for which the University's subsidiary acts as trustee and periodically pays specified amounts to the designated beneficiaries. Generally, beneficiary payments are a fixed amount for annuity trusts, a fixed percentage of the fair market value of the trust assets for standard unitrusts, or based on income earned for other charitable remainder trusts. At a date specified in each gift instrument, usually the beneficiary's date of death, ownership of the trust assets will transfer to the University and the beneficiary payments will cease. The University also enters into gift annuity agreements, which require that the University take ownership of the assets at the date of gift with an obligation to periodically pay specified amounts to designated beneficiaries for their lifetimes. Assets held in life-income trusts and those assets associated with gift annuities are included in investments. Contribution revenues are recognized at the date the trusts or gift annuities are established. Liabilities are recorded at the same time contribution revenues are recognized using actuarial tables established by the Internal Revenue Service (IRS Life Table 90CM) and discounted according to the risk-free rate at the time of the gift. The liability represents the present value of the estimated future payments to be made to the beneficiaries,

discounted at rates of 5%-6%. The liabilities are adjusted annually for changes in the value of the assets and actuarial changes, which impact the estimates of future payments.

Government Refundable Loan Program
The University participates in the Perkins revolving loan program, which is funded principally with advances from the federal government. These advances are refundable to the federal government if the program is terminated or if the University ceases to participate in the program.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Tax Status
The University is exempt from federal income tax to the extent provided under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service (IRS) issued a determination letter in January, 1938, that recognized the University as exempt from federal income tax under section 501(c) (3). The IRS confirmed in 2008 that this exemption still applies. The University is classified as an organization that is not a private foundation under section 509(a) of the Internal Revenue Code because it is described in sections 509(a)(1) and 170(b)(1)(A)(ii) and, as such, gifts to the University qualify for deduction as charitable contributions. The University's taxable and tax-exempt wholly-owned subsidiary corporations are included in the consolidated financial statements. The University and its subsidiary corporations that are exempt from federal income tax are required to pay federal income tax on unrelated business income. The University and its subsidiary corporations did not have any material income tax liabilities for the years ended June 30, 2008, and June 30, 2007.

New Accounting Pronouncements
In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax provisions. The interpretation is effective for the University's fiscal year ended June 30, 2008. The University has no financial reporting requirements associated with implementation of FIN 48 in fiscal year 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007, except for certain provisions that were deferred for an additional year. Management is still evaluating the impact of this pronouncement and does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). The standard permits entities to choose to measure many financial instruments and certain other items at fair value. The standard is effective for fiscal years beginning after November 15, 2007. Management is evaluating whether the fair value measurement principles will be elected and does not believe the adoption of SFAS 159 will have a material impact on the financial statements.

The FASB issued FASB Staff Position 117-1 (FSP 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*, in August, 2008. The standard 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 (UPMIFA) and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. Texas adopted UPMIFA in September 2007, and the standard is effective for fiscal years ending after December 15, 2008. Management is evaluating the impact of FSP 117-1 and believes its adoption will require a reclassification of approximately $1.4 billion of unrestricted net assets to temporarily restricted net assets. The University does not believe the adoption of FSP 117-1 will have a significant impact on operations.

2. Accounts Receivable and Other Assets

Accounts receivable and other assets of the University at June 30, 2008 and 2007 were as follows:

(in thousands of dollars)	2008	2007
Unsettled investment sales	$ 13,865	$ 7,570
Investment income receivable	5,523	4,347
Student loans receivable, net of allowance of $1,214 in 2008 and $1,241 in 2007	9,187	8,006
Interest rate swap agreements	-	3,874
Inventory, prepaid expenses and other assets	9,202	7,914
Sponsored agreements receivable	11,639	10,510
Other accounts receivable	5,761	6,607
Total accounts receivable and other assets	$ 55,177	$ 48,828

3. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting to the present value of expected future cash flows. Unconditional promises to give at June 30, 2008 and 2007 are expected to be realized in the following periods:

(in thousands of dollars)	2008	2007
In one year or less	$ 28,158	$ 10,294
Between one year and five years	113,002	98,078
More than five years	68,697	59,660
Less: Discount to net present value	(35,902)	(39,723)
Less: Allowance for uncollectible pledges	(8,394)	(6,721)
	$ 165,561	$ 121,588

Pledges receivable at June 30, 2008 and 2007 had the following restrictions:

(in thousands of dollars)	2008	2007
Permanently invested	$ 68,506	$ 77,833
Buildings	71,302	28,383
Support of University programs and activities	70,049	61,816
Less: Discount to net present value	(35,902)	(39,723)
Less: Allowance for uncollectible pledges	(8,394)	(6,721)
	$ 165,561	$ 121,588

A discount rate of 5% was used to discount pledges made between July 1, 2005 and June 30, 2007, a discount rate of 3% was used to discount pledges made between July 1, 2001 and June 30, 2005 and pledges made between July 1, 2007 and June 30, 2008, and a discount rate of 6% was used to discount all pledges made prior to July 1, 2001. A reserve rate of 4% was used for allowance for uncollectible pledges. The reserve rate is reviewed periodically to ensure adequate provision for uncollectible amounts.

The University received a conditional pledge of up to $30,000,000 to establish an unrestricted fund that will function as a term endowment, provided that a building is constructed as specified in the pledge document. The University received a conditional pledge that includes $9,000,000 to create a term endowment and a permanent endowment, both of which will support the activities of an academic center, provided the University meets certain specified implementation milestones, and up to an additional $5,000,000 towards the same term and permanent endowments, provided the University raises an additional $10,000,000 in new gifts and pledges for the support of the academic center by a specified date.

4. Investments

Investments at June 30, 2008 and 2007 were as follows:

(in thousands of dollars)	2008	2007
Repurchase agreements	$ 261,326	$ 236,070
Fixed income securities	557,560	489,968
Equity securities	1,877,517	2,409,155
Limited partnerships	2,117,957	1,753,450
Other investments	382,325	324,236
	$ 5,196,685	$ 5,212,879

The table above includes annuity and life income fund assets of $157,976,000 and $176,081,000 as of June 30, 2008 and 2007, respectively. The repurchase agreements included in the above table represent unspent bond proceeds that will be drawn down as project expenditures are incurred (Note 7).

The following table summarizes investment income and net gains (losses) for the years ended June 30, 2008 and 2007, by net asset classification:

	2008				2007
(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Investment earnings	$ 59,049	$ 2,890	$ 4,904	$ 66,843	$ 65,924
Net gains on investments	36,432	(1,972)	(14,993)	19,467	801,304
Total investment gains and earnings	95,481	918	(10,089)	86,310	867,228
Less: Investment returns distributed for operations	(190,642)	(11,821)	-	(202,463)	(183,464)
Investment returns, reduced by operating distribution	$ (95,161)	$ (10,903)	$ (10,089)	$ (116,153)	$ 683,764

Investment earnings are presented net of internal and external investment management expenses of $41,394,000 and $33,085,000 in 2008 and 2007, respectively.

The University's endowment earnings distribution policy is based on total investment returns, as permitted by both the Texas Uniform Management of Institutional Funds Act and the Texas Uniform Prudent Management of Institutional Funds Act, which became effective in September 2007. Under this policy, the Board of Trustees approves an endowment earnings distribution, which is based on the earnings distribution of the preceding year and the market value of endowment assets. Sources of this distribution for each restricted endowment, in the order utilized, are (a) earned income as traditionally defined (interest, dividends, and rents), (b) reinvested earned income from prior years and (c) capital gains where not prohibited by the gift document. Sources of this distribution for the unrestricted general endowment, in the order utilized, are (a) earned income as traditionally defined (interest, dividends, and rents) and (b) capital gains. Endowment returns, net of operating distribution, is reinvested under the University's endowment earnings distribution policy in the investment pool as net assets functioning as endowment.

5. Property and Equipment

Property and equipment of educational plant at June 30, 2008 and 2007 were as follows:

(in thousands of dollars)	Estimated Useful Lives (Years)	2008	2007
Land	–	$ 23,768	$ 23,768
Buildings and improvements	20–50	659,522	617,576
Equipment, furniture and library books	2–20	312,132	290,211
Construction in progress	–	232,785	78,729
Less: Accumulated depreciation	–	(382,333)	(340,783)
		$ 845,874	$ 669,501

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities of the University at June 30, 2008 and 2007 were as follows:

(in thousands of dollars)	2008	2007
Unsettled investment purchases	$ 8,098	$ 3,253
Vendor accounts payable	38,499	19,569
Accrued payroll and employee benefits	12,328	12,000
Sponsored agreements unearned income	14,519	10,300
Conditional asset retirement obligations	6,529	7,455
Conditional pledge advances	7,641	4,725
Interest rate swap	3,631	-
Other liabilities	5,073	4,352
Total accounts payable and other liabilities	$ 96,318	$ 61,654

7. Notes and Bonds Payable

Notes and bonds payable of the University at June 30, 2008 and 2007 were as follows:

(in thousands of dollars)	2008	2007
City of Houston Higher Education Finance Corporation (CHHEFC)		
Tax-exempt revenue bonds, Series 2008A & 2008B, maturing 2039 through 2048, with a floating average rate of interest at June 30, 2008 of 1.87% per annum payable monthly	$ 199,373	$ -
Tax-exempt revenue bonds, Series 2007A & 2007B, maturing 2010 through 2047, with an average coupon of 4.75% per annum payable semiannually	314,632	314,632
Tax-exempt revenue refunding bonds, Series 2006A & 2006B, maturing 2023 through 2029, with a floating average rate of interest at June 30, 2008 of 1.37% (3.75% at June 30, 2007) per annum payable monthly	147,180	147,180
Tax-exempt commercial paper notes, Series A, with interest ranging from 1.70% to 2.00% at June 30, 2008 (3.65% to 3.69% at June 30, 2007) per annum payable upon maturity	20,000	28,800
Taxable line of credit from commercial bank with interest payable at the end of each interest period at LIBOR plus .15%	-	1,558
	$ 681,185	$ 492,170

The University incurred interest expense, net of interest earned, of approximately $11,518,000 and $8,512,000 in 2008 and 2007, respectively, and made interest payments of approximately $20,573,000 in 2008 and $9,446,000 in 2007. Interest expense of $8,643,000 and $7,856,000 was charged to operations in 2008 and 2007, respectively.

Tax-Exempt Revenue Bonds
Series 2008A and 2008B
In June 2008, the University issued Series 2008A and 2008B revenue bonds through the CHHEFC. Original issuance costs of $627,000 were capitalized by the University and are being amortized over the term of the bond issue. Principal payments commence on June 30, 2039 and are payable annually through June 30, 2048.

A portion of the proceeds of the Series 2008A and 2008B bonds were used to refund $28,800,000 of commercial paper.

Unspent bond proceeds of $167,449,000 at June 30, 2008 are invested in a flexible repurchase agreement. The financial institution that provided the investment contract has deposited securities equal to at least 102% of the value of the repurchase agreement as collateral with a custodian. These securities are limited to obligations of the United States of America or its agencies.

The estimated fair value of the CHHEFC Series 2008A and 2008B bonds is equal to the face value at June 30, 2008.

Series 2007A and 2007B

In June 2007, the University issued Series 2007A and 2007B revenue bonds through the CHHEFC. The Series 2007A bonds were issued with a $5,832,000 original issue premium and the Series 2007B bonds were issued net of a $365,000 original issue discount. The original issue premium and discount and additional issuance costs of $2,494,000 were capitalized by the University and are being amortized over the term of the bond issue. Interest payments on the bonds are payable semiannually. Principal payments for Series 2007A commence on May 15, 2010 and will be required annually until the scheduled maturity date of May 15, 2047. Principal payments for Series 2007B begin November 15, 2030 and continue annually until their maturity in November 2037.

A portion of the proceeds of the Series 2007A and Series 2007B bonds was used to legally defease $5,000,000 and $42,400,000, respectively, of commercial paper. The obligation for this commercial paper was removed from the Statement of Financial Position.

Unspent bond proceeds of $93,877,000 at June 30, 2008 are invested in a flexible repurchase agreement. The financial institution that provided the investment contract has deposited securities equal to 102% of the value of the repurchase agreement as collateral with a custodian. These securities are limited to obligations of the United States of America or its agencies.

The estimated fair value of the CHHEFC Series 2007A bonds is equal to $204,336,000 at June 30, 2008 and $206,538,000 at June 30, 2007. The estimated fair value of the CHHEFC Series 2007B bonds is equal to $96,825,000 at June 30, 2008 and $93,348,000 at June 30, 2007.

Series 2006A and 2006B

In March 2006, the University issued Series 2006A and 2006B revenue refunding bonds in the amount of $147,180,000. Proceeds from these bonds were used to advance refund the Series 1999A debt service obligation by irrevocably placing assets with a trustee to pay principal, interest and call premium on the obligations as they become due, and to current refund $20,000,000 of commercial paper.

The estimated fair value of the CHHEFC Series 2006A and 2006B bonds is equal to the face value at June 30, 2008 and June 30, 2007.

Effective March 29, 2006, the University entered into interest rate swap agreements with a total notional amount of $147,180,000. The University receives amounts based on 67% of the three-month London Interbank Offered Rate (LIBOR) and makes payments based on a fixed rate of 3.868%. The term of the swaps matches the term of the Series 2006A and 2006B bonds. The University has the option to terminate the swaps starting in 2016.

The fair value of the interest rate swap agreements is the estimated amount that the University would pay or receive to terminate these contracts as of June 30, 2008 and June 30, 2007. The estimated fair value of these swap arrangements was a liability of $3,631,000 at June 30, 2008 and an asset of $3,874,000 as of June 30, 2007. The change in value is reported as other nonoperating expense for 2008 and other nonoperating income for 2007 on the Consolidated Statement of Activities.

Excluding maturity of commercial paper and other notes payable, as well as unamortized discounts and premiums, scheduled principal payments are:

(in thousands of dollars)	**Principal Payments**
2009	$ -
2010	2,055
2011	2,135
2012	2,220
2013	2,310
Thereafter	647,625
	$ 656,345

Commercial Paper Notes

The University has a tax-exempt commercial paper credit facility that provides for borrowings in the form of individual notes up to an aggregate of $100,000,000. The notes bear a fixed rate of interest, established on the borrowing date, over their individual terms, not to exceed 270 days. The outstanding balance under the facility was $20,000,000 and $28,800,000 with an average interest rate of 3.00% and 3.61% and an average maturity of 60 days and 67 days as of June 30, 2008 and 2007, respectively.

The estimated fair value of the commercial paper notes approximates the face value. Subsequent to June 30, 2008, the University issued an additional $20,000,000 of commercial paper under this facility.

Taxable Line of Credit

In August 2006, the University signed a taxable line of credit with a limit of $6,000,000 from a commercial bank. The interest on any outstanding balances under the line of credit was payable at the end of each interest period with a rate equal to the LIBOR rate for that period plus 0.15%. The credit line expired in July 2007 and was not renewed.

8. Net Assets

The University's unrestricted, temporarily restricted and permanently restricted net assets for the years ended June 30, 2008 and 2007 are summarized as follows:

	2008				2007
(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Internally designated for specific programs or ongoing activities	$ 96,172	$ -	$ -	$ 96,172	$ 97,359
Designated or restricted by donor, including pledges	67,694	108,857	-	176,551	93,018
Net investment in plant	348,782	18,541	-	367,323	385,366
Endowment and designated for long term investment, including pledges	3,567,697	214,324	874,408	4,656,429	4,720,418
Life-income trusts	-	51,285	24,786	76,071	81,535
Loans	6,503	-	2,719	9,222	9,546
	$ 4,086,848	$ 393,007	$ 901,913	$ 5,381,768	$ 5,387,242

The Board of Trustees has designated certain unrestricted and temporarily restricted net assets for long term investment. Most net assets designated for long term investment and endowment assets participate in one common investment pool (Note 4).

9. Student Financial Aid

Gross student tuition and fees of $137,992,000 and $122,648,000 in 2008 and 2007, respectively, are presented in the consolidated financial statements net of scholarship and fellowship awards of $54,360,000 and $47,500,000, respectively. Auxiliary enterprises revenue was reduced by scholarship awards applied to room and board charges of $1,584,000 and $2,071,000 in 2008 and 2007, respectively. Scholarship and fellowship awards in excess of the above amounts are reported as expense.

10. Functional Expenses

Educational and general expenses of the University by major functional category for the years ended June 30, 2008 and 2007 were as follows:

(in thousands of dollars)	2008	2007
Instruction and department research	$ 192,576	$ 180,173
Sponsored research and other sponsored programs	70,928	64,419
Library	25,828	24,271
Scholarships and fellowships	13,955	13,192
Student services	36,808	35,480
General administration	27,238	26,282
Institutional development and other activities	20,381	18,947
Total educational and general	$ 387,714	$ 362,764

The above table includes depreciation expense of $22,569,000 and $21,151,000 and operations and maintenance expense of $36,199,000 and $32,618,000 in 2008 and 2007, respectively, which were allocated to the major functional categories based on space usage. In addition, depreciation of library books of $8,021,000 and $7,523,000 was recognized as library expense in 2008 and 2007, respectively, and depreciation expense of $10,960,000 and $10,526,000 was allocated to auxiliary enterprises in 2008 and 2007, respectively.

11. Related Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with the University. The University employs a conflict of interest policy that requires any such associations to be disclosed in writing on an annual basis and updated as appropriate during the year. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board member from any decisions involving the entity doing business with the University. The transactions with entities associated with trustees or senior management are not considered to be significant and may include investment management, common membership in investment partnerships or other investment vehicles, or the purchase of goods or services.

12. Retirement Plans

Substantially all employees are eligible to participate in a defined contribution retirement plan, which is administered by an outside agency. The plan operates in accordance with Section 401(a) of the Internal Revenue Code. University contributions are made to this plan. In addition, employees may elect to participate in plans created under Section 403(b) of the Internal Revenue Code. The University's contributions to the plan of $15,847,000 and $14,832,000 were recorded as expense in the appropriate functional categories in 2008 and 2007, respectively.

13. Commitments and Contingencies

A number of suits and claims are pending against the University. While final outcomes cannot be determined at this time, management believes, after consultation with its legal counsel, that the uninsured liability, if any, resulting from these suits and claims will not have a material adverse effect on the University's financial position.

The University receives funding from federal government agencies for research and other programs conducted under government grants and contracts. The grants and contracts provide for reimbursement of direct and indirect costs. Indirect costs are reimbursed under a negotiated rate agreement with the federal government; the rate is predetermined through fiscal year 2011. The costs recovered by the University in support of federally sponsored programs are subject to audit and adjustment.

In connection with its private equity investment program (Note 4), the University is obligated under certain limited partnership agreements to advance additional funding up to levels specified in each agreement upon the request of the general partner. At June 30, 2008 and 2007, the University had unfunded commitments of $863,689,000 and $898,414,000, respectively, which are expected to be called primarily over the next five to seven years.

Additionally, the University was committed under contracts at June 30, 2008 and 2007, for capital construction and improvements and major maintenance of approximately $237,082,000 and $215,258,000, respectively, to be financed primarily from gifts and net assets designated for long term investments, and from debt to the extent other resources are not available. Other purchasing commitments of $4,683,000 and $5,737,000 were also outstanding at June 30, 2008 and 2007, respectively.