KPMG

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

June 30, 2015

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Management's Discussion and Analysis

Highlights from 2014-15

With June 30, 2015 marking the end of the University's historic campaign, *Honor Our Past, Build Our Future*, it makes sense to broaden the discussion of highlights to include an emphasis on the impact of this campaign on University finances.

- Total endowment assets and funds held in trust by others ended the fiscal year at a new high water mark of $1.471 billion.
- Endowment (including funds held in trust by others) per Student increased to approximately $651,000. At the start of the Campaign, this figure was just $471,000. In other words, this increase in value of 28% has been captured in just the last seven years.
- University approved the smallest percentage increase in tuition and fees in the last fifty-five years with an increase of just 1.79% for the 2015-16 year.
- Completed the renovation of Graham-Lees Hall while beginning the work on the Center for Global Learning, the Upper Division Housing project, the Natatorium, the second phase of Law School renovations and the upgrade of Liberty Hall Fields. All of these projects were integral elements within the University's Strategic Plan.
- Annual Fund reached a new high for funds raised at $10.04 million with undergraduate alumni participation at 54.2%. Over the Campaign, the Annual Fund grew from $6.3 million to this new benchmark level of $10 million.
- The capital campaign, *Honor Our Past, Build Our Future*, not only reached but blew by the goal of $500 million with a final total of $542.5 million, a $300 million increase from the last Campaign, *For the Rising Generation*.
- University grants and scholarships were awarded to 50% of the undergraduates. Set new record number of students reached with institutional grant and scholarship support at 941 undergraduates. The percentage of undergraduates with University grants or scholarships has increased from 39% to 50% over the last seven years.
- Undergraduate enrollment remained robust with 1,882 full-time students while the Law School dropped back to 374 students reflecting the national trend in legal education enrollments.
- This past year, the University was able to offer 152 summer Lenfest Grants to faculty to pursue their research and scholarship, 11 full-year Lenfest Sabbaticals, 64 Johnson Opportunity or Enhancement grants to students for research or other experiential opportunities and over 120 additional grants to students for summer research or internships.

Benefitting from Diversification

Among the benefits of the Campaign's impact on the University is the greater diversification of revenues. No longer is the University primarily tuition-dependent, but instead the impact of philanthropy serves as the primary catalyst of revenue growth. Within the higher education community, this makes Washington and Lee an enviable outlier where the vast majority of private liberal arts colleges throughout America remain highly tuition-dependent. This shift, which is viewed as a very positive development, does create a different set of questions and potential challenges that must be examined and managed; however, it is from a position of financial strength that allows the University to adapt its models and policies to best ensure continued success.

Since 2007-08, the last year before the beginning of the campaign, the percentage of revenues from philanthropic sources (endowment allocation, contributions and trusts held by others distributions) has surpassed that of net tuition. In 2007-08, net tuition accounted for 43% of all revenues while philanthropic sources accounted for 41%. This most recent fiscal year showed net tuition revenues accounting for 40% of all revenues and philanthropic sources for 48% of those revenues. With the anticipation of an undergraduate enrollment to more normal historic norms (closer to 1,750 undergraduate students on campus) and as the School of Law enrollment trends down into the low 300s, this gap will most likely grow in the coming years. As a result, greater thought and consideration can be given to policies that help minimize the impact of investment market volatility, recognize the importance of downside protection within the investment portfolio and secure reserves to help steady operations when volatility is simply too great to be managed away (the 2008-09 financial markets as an example).

This greater level of revenue diversity benefits the University in ways beyond just financial. The investments made in financial aid mean that we reached 242 more undergraduates with institutional grants and scholarships in 2014-15 than we did in 2007-08 and the average award to an undergraduate topped $40,000 or 90% of tuition. Beyond expanding access, the Campaign brought in endowment support that has allowed for the creation of the Roger Mudd Center for Ethics and the J. Lawrence Connolly Center for Entrepreneurship while also fully endowing the Shepherd Program for Interdisciplinary Study of Poverty and Human Capability. Finally, it is worth noting that support of academic and student programs has also been translated into improved facilities throughout the campus with the Campaign directly supporting the following projects: Wilson Field, Hillel House, Main Floor of Leyburn Library, the Colonnade, Stemmons Plaza, duPont Hall/Center for Global Learning, Lewis Hall, IQ Center, Belfield, the Morris House and the Natatorium. These investments in facilities and endowments to support student aid, faculty and student research, academic programs and professorships help to build a more sustainable business model.

The following discussion provides a snapshot of Washington and Lee's financial picture and outlines how fiscal resources are utilized to provide a strong, student-centered educational experience.

Assets

Washington and Lee University experienced continued growth in assets over the past year. From $1.918 billion as of June 30, 2014, the University's assets grew to $1.966 billion as of June 30, 2015. In the past five years, the University's assets have grown by $575 million. Two areas have led this growth: endowment and plant (physical facilities) (see Fig. 1).

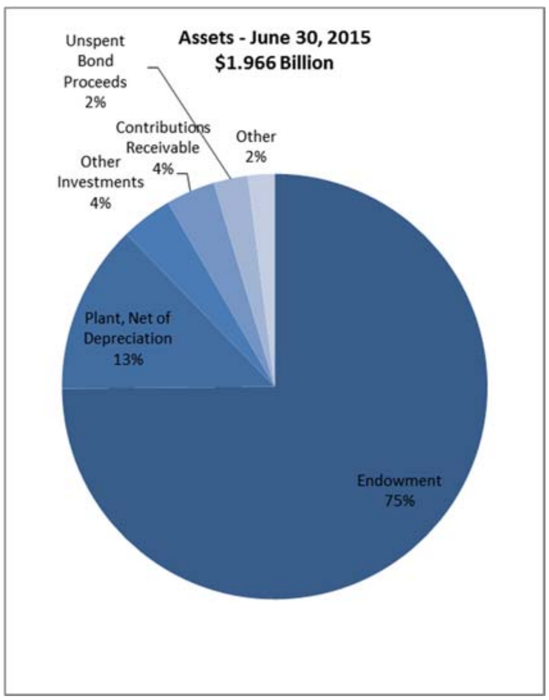

Figure 1

Endowment: Our endowment comprises two elements: gifts to the University held in the investment pool and Trusts Held by Others. The University's aggregate endowment dipped slightly to $1.471 billion at June 30, 2015 (See Fig. 2).

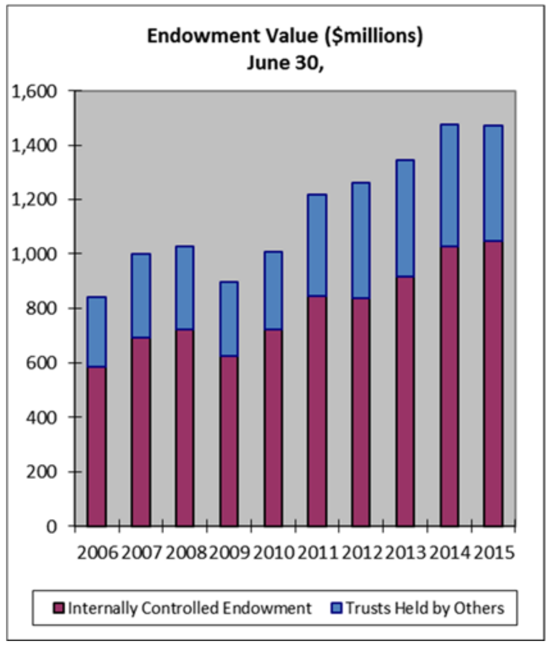

Figure 2

This was a decrease from $1.478 billion as of June 30, 2014. Investment returns for the internally managed endowment moderated over the past year yielding a 4.73% return. This coupled with the inflows of gifts offset the allocation from endowment for operating support of $43.8 million. The market value of Trusts Held by Others declined by $28.3 million while this asset still distributed $12.5 million in operating budget support, an increase of $900,000 from 2014.

The internally controlled endowment stood at $1.048 billion, an increase of $21.6 million from June 30, 2014. Changes in endowment value reflect gifts and additions, distributions for spending and appreciation from the underlying investment funds. For 2014-15, gifts infused $14.6 million into the internally managed endowment and investment income and net appreciation contributed $50.9 million while distributions for spending drew out $43.8 million.

Returns on a nominal basis for endowment funds with external managers fell short of the University's long-term expected return (4.7 % versus 7.5%). This return, while falling short of our benchmark return target still places us in the top third of endowments for one-year performance. Over the longer term, the annual return for the ten-year period ending June 30, 2015 of 7.36% places the endowment in the top thirty percent of endowment performance (both statistics as measured by the Mellon Trust Endowment Universe). If the long-term goal of endowment management is to achieve equity-like returns at lesser volatility, then we believe that the University's Investment Committee has achieved that result since the University's endowment over the past thirty-seven years has bettered the S&P 500 by 1.39% on an annual compounded basis, and on a trailing five-year basis has an observed annualized volatility of less than half the Global 60/40 benchmark portfolio..

Physical Facilities: The University's physical facilities represent the second largest financial investment. Unlike the endowment and trusts held by others, the University's physical plant does not appreciate over time but requires constant upkeep and preservation. At the same time, the investment in facilities is necessary to continue to create stimulating learning and social environments for our students and faculty.

During the 2014-15 year, the University completed the renovation of Graham-Lees Hall and began a number of other projects including the Natatorium, the second phase of the Law School renovations, duPont Hall/Center for Global Learning, the Upper Division Housing complex and the First Year Residence campus green. These projects are funded through the combination of fundraising, debt and, to a much lesser extent, allocations from operations.

Looking ahead, investment in facilities will continue to be structured to meet the University's strategic objectives. The Upper Division Housing project will be completed for the fall of 2016, the Natatorium will open in the 2016-17 academic year as will the Center for Global Learning. In 2016-17, we will begin the renovation of the fifth and final building on the Colonnade, Tucker Hall and will move into more in-depth planning for the rebuild of the Warner facility, with significant improvements planned for Doremus as well, to help accommodate the additional sports teams, student populations and increases in intramural and recreational activity that have occurred on campus since Warner was constructed in the early 1970s.

While approximately $25 million remains to be raised toward the Indoor Athletic and Recreation projects, the Campaign ended with the goal met for the Colonnade projects, including Stemmons Plaza, as well as the many other projects outlined earlier in the report. Debt also plays a role in our ability to invest in facilities. The debt issues of 2013 for $35 million and 2015 for $45 million of new money debt will be required to fund the majority of the residential improvements and expansion on the campus. At June 30, 2015, the University held $51.1 million in unspent bond proceeds which will be converted into physical facilities over the next two years. There will be more discussion on the University's debt later in the report.

Contributions Receivable: As the *Honor Our Past, Build Our Future* campaign concluded there were a number of new commitments and gifts, many of them made in the form of multi-year pledges. These play a vital role in aiding our planning efforts to ensure that we can match timing of implementation of a strategic initiative with the funding that will support it. As of June 30, 2015, contributions receivable were valued at $73.5 million. This is up from $49.0 million as of June 30, 2014 reflecting the strong finish and support for the Campaign over the last fiscal year.

Other Investments: The last major asset within the University's financial structure is categorized as "Other Investments." These are primarily split interest arrangements by which a donor gives the University a sum of money to invest and manage. The donor receives an income interest from these investments for a specified period of time after which Washington and Lee receives the remainder of the invested funds to support University operations. These investments totaled $52.2 million at the end of this most recent fiscal year, a drop from $77.1 million at the end of 2014. This reduction was expected as one large lead trust (trust that acts in contrast to a remainder trust in that during the life of the trust, the University is the income beneficiary and at termination the principal value is returned to the donor or their heirs) matured during the year and that principal balance was distributed to the beneficiaries.

<u>Liabilities</u>

On the other side of the ledger, the University has liabilities totaling $276.0 million. Three types of liabilities comprise 91% of this total: debt, future annuity payments and postretirement benefits. (See Fig. 3)

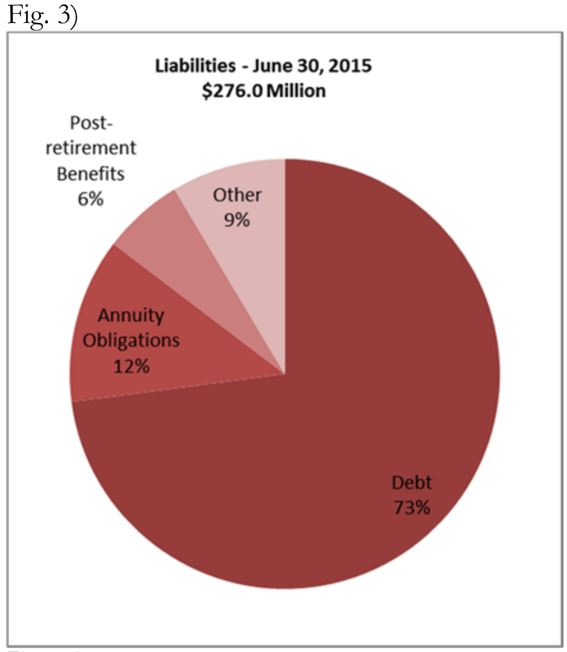

Figure 3

Debt: Washington and Lee University's largest liability is long-term debt that has been incurred over the years to support capital building projects. Over the past three years, the University has taken on more debt primarily to fund elements within the Strategic Plan that were not deemed as strong fundraising candidates. (See Fig. 4). In the spring of 2015, the University issued through the Virginia College Building Authority two series of bonds that yielded $51.9 million in proceeds. Of those proceeds, $6.5 million were dedicated to advance refund a portion of the 2006 bonds with the balance to provide funding for the Upper Division Housing project, Liberty Hall Field improvements, a renovation of Woods Creek Central apartments, renovations of Davis Hall to accommodate the Student Health Center and ITS which will vacate Tucker Hall in 2017 and a small allocation toward the Natatorium. This has raised the outstanding long-term debt balance to $201.2 million at June 30, 2015. Over the past year, the University made $1.9 million of payments toward principal, exclusive of the advanced refunding, and cash paid for interest totaled $7.7 million. As of year-end, the University's outstanding debt was composed of eight different instruments; all being tax-exempt issues through either the Virginia College Building Authority or the Lexington City Industrial Development Authority. Of the outstanding debt, 85% is fixed rate and 15% is variable rate debt.

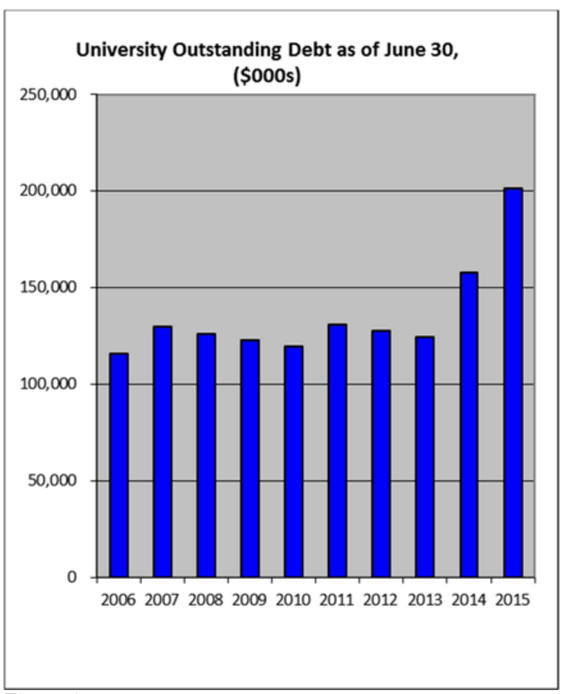

Figure 4

As part of the debt issuance process, the University has sought and maintained credit ratings with Moody's Investor Services and S&P. Currently, the University's debt is rated Aa2 and AA by Moody's and S&P, respectively. Both of these ratings reflect a "Stable" outlook from the agencies. These strong ratings reflect outside agencies' evaluations of the University's financial health and its ability to repay its obligations.

With the 2013 and 2015 debt issues, the University is unlikely to add to its debt profile in the near-term future. While much of the new debt will be supported from additional housing revenues when the Upper Division Housing is occupied in 2016-17, annual debt service will climb toward the upper limits of the range for debt service as outlined in the University's Debt Policy.

Future Annuity Payments: The split interest instruments mentioned above create a liability based upon expected future payments to the donor. As of June 30, 2015, this liability was recorded at $34.3 million. It is safe to say that the University welcomes an increasing liability in this area, since it reflects a growing deferred-giving program, which will lead to greater financial support in the future.

Postretirement Benefits: Finally, the University has maintained a postretirement health benefits plan for those employees who serve 10 years or more and retire from the University. This commitment creates an annual expense for the program as well as a future obligation. This obligation, as actuarially calculated, now stands at $16.8 million, up from $15.1 million at June 30, 2014. The University altered this plan for employees hired after April 1, 2003, to shift to a defined contribution plan for employees rather than a defined benefit plan. This will lead to an elimination of this obligation over the very long-term.

Net Assets

In the corporate world, assets minus liabilities reveal the enterprise's equity. Within higher education, this "equity" is referred to as net assets which are broken down into three components: Unrestricted Net Assets, Temporarily Restricted Net Assets and Permanently Restricted Net Assets.

Unrestricted Net Assets: These funds can be expended if necessary, and as such, they carry the greatest level of flexibility for the University to meet its long-term obligations. The build-up of these funds results from operating surpluses, the creation of quasi-endowments from large unrestricted gifts and the development of reserves over the years. The University saw this class of net assets increase by nearly $10.9 million to $334.4 million at June 30, 2015.

Temporarily Restricted Net Assets: These funds are fully expendable but restricted by either a purpose, time frame for use or accumulated gains of permanently restricted endowments. Examples are gift funds restricted for support of student financial aid, gifts to support specific building projects, deferred giving arrangements under which the University has an obligation to make payments to beneficiaries before receiving the remainder value to meet the donor's intent and unspent endowment allocations intended for programmatic purposes. These net assets also grew to $455.7 million as of June 30, 2015, an increase of 2.7% for the year.

Permanently Restricted Net Assets: These funds are given by a donor with the express condition that the original value of the gift not be expended by the University. Instead, the funds are invested and the University benefits from the investment return on the funds. At Washington and Lee, these funds are the underpinnings of the endowment and include many of the outside trusts that were established to be managed in perpetuity for the University's benefit. Over the past year, the value of this net asset component decreased by $4 million to $899.6 million. This decline reflects the fall in the market value of the Trusts Held by Others of this past year.

Table 1 summarizes the University's Statement of Financial Position.

Table 1

Summary
Statement of Financial Position
June 30, 2015 ($000s)

Assets:	
Cash and Cash Equivalents	$ 9,054
Accounts and Notes Receivable	12,989
Contributions Receivable, net	73,471
Inventories	1,301
Investments	1,124,425
Funds Held in Trust by Others	423,487
Unspent Bond Proceeds	51,117
Assets Restricted to Investment in Plant	15,066
Land, Buildings and Equipment, net	253,181
Other Assets	1,499
Total Assets	$ 1,965,590
Liabilities:	
Accounts and Other Payables	$ 11,760
Accrued Compensation	3,860
Student and Other Deposits	733
Deferred Revenue	2,502
U.S. Government Grants Refundable	1,967
Annuity Obligations	34,257
Asset Retirement Obligations	1,241
Capital Lease Obligations	1,571
Long-term Debt	201,236
Postretirement Benefit Obligations	16,823
Total Liabilities	275,950
Net Assets:	
Unrestricted	334,374
Temporarily Restricted	455,713
Permanently Restricted	899,553
Total Net Assets	1,689,640
Total Liabilities and Net Assets	$ 1,965,590

Sources and Uses

For Washington and Lee, this strong financial base is critical in helping faculty and staff deliver a high quality education and student experience. While endowment resources make an enormous contribution to the revenue stream of the University, they are not the only revenues available to the University as Figure 5 depicts.

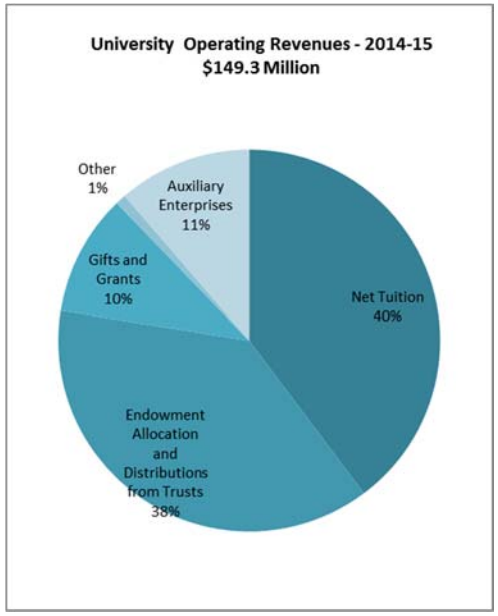

Figure 5

Tuition and fees remain a vital source of operational support. The last several years can be characterized as having modest increases in the "sticker price" for tuition at the University while net tuition per student has remained flat since we have been able to expand financial aid as one of the highest priorities of the Strategic Plan and Capital Campaign.

In 2014-15, net tuition revenues held steady at $59.3 million. This result occurred even with a decline in the number of law students by 11% in 2014-15. On the undergraduate side, we saw the number of full-time students increase by 31 as already high retention rates showed additional improvement. Financial Aid continues to be significantly funded through endowment and gifts (47.1% in 2014-15) and provides access for students who otherwise may not be able to attend, which we believe allows the University to continue to attract the very best students.

Table 2 outlines the operating results for the year.

Table 2

Summary Statement of Activities June 30, 2015 ($000s)	
Revenues:	
Gross Tuition	$ 101,260
Less donor funded student financial aid	(22,694)
Less institutionally funded student aid	(19,231)
Net Tuition	59,335
Endowment Return Allocated to Operations	43,818
Income from Funds Held in Trust by Others	12,549
Contributions and Grants	15,337
Auxiliary Enterprises (net of $2,290 of aid)	16,914
Other	1,332
Total	**149,285**
Expenses:	
Instructional	70,822
Academic Support	18,173
Student Services	13,699
Institutional Support	18,054
Financial Aid	3,980
Auxiliary Enterprises	22,016
Other	3,086
Total	**149,830**
Operating Deficit	(545)
Increase in Net Assets from Non-Operating Activities	19,370
Change in Net Assets	**$ 18,825**

In reading the operating results of the University, one must look at three pieces to understand the full commitment to Financial Aid at the University. Within revenues, Financial Aid is shown as a reduction of tuition ($41.93 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $2.29 million. Finally, within the Expenses section, there is a line item for Financial Aid that totals $3.98 million. On a combined basis, student financial aid awarded by the University in 2014-15 increased by nearly three times the rate of student fees (or 5.9% for student financial aid compared to 2.1% for student fees) to $48.2 million. It is worth noting that all students benefit from a form of financial aid in that costs per student exceed tuition, room, board and fees by nearly $8,900 (once again, reflecting the impact of philanthropy on the organization's finances).

Endowment distributions, whether from the defined payout formula or allocations from Trusts Held by Others, accounted for 37.8% of the operating revenues in 2014-15, at $56.4 million. This source has grown in importance as a portion of the revenue stream (See Fig. 6). As a result, diligence of management of the underlying assets and considerations of payout allocation models are as important, if not more important, than a decade ago. It should be noted that prior to 2006-07, the University regularly exceeded a 5% payout from the aggregate endowment as measured against the beginning market value. In 2014-15, the endowment allocation to operations translated to a payout rate of 4.39%.

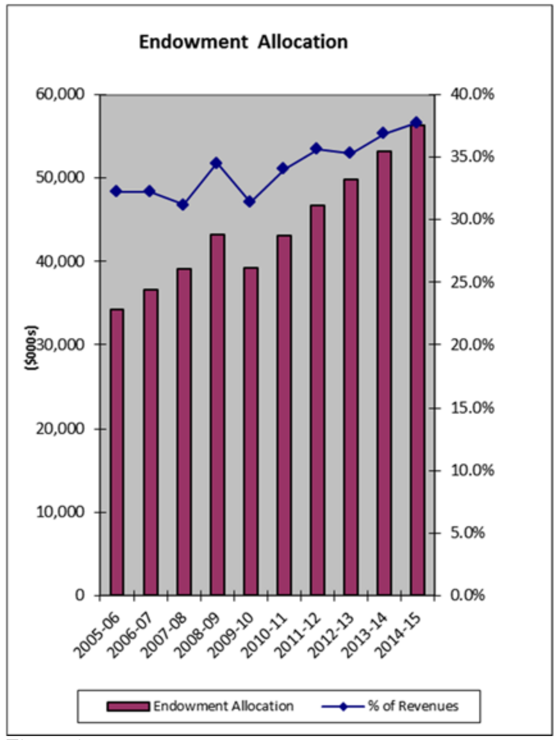

Figure 6

Current gifts and grants also play a significant role in the University's ability to provide a robust and vibrant educational program. For instance, in 2014-15, the Annual Fund exceeded $10.0 million in total commitments for the first time and reflected an increase of $721,000 from 2013-14. In addition, the University maintained a high undergraduate alumni participation with 54.2% making gifts. These unrestricted gifts underwrite all aspects of University life. In the aggregate, Washington and Lee received $15.3 million in contributions and grants in 2014-15 to underwrite operations. If the University had to rely on its endowment to generate the same level of contribution, the University would need an additional $349 million in endowment funds. It is worth noting that 77% of solicitable alumni made at least one gift to the campaign between 2008 and 2015.

We use these resources to fulfill our core mission – education. As demonstrated in Fig. 7, Instruction and Academic Support (libraries, information technology services, etc.) comprise nearly 60% of total expenses. Fig. 7 also demonstrates that only 12% of expenditures go toward administration, including fund-raising.

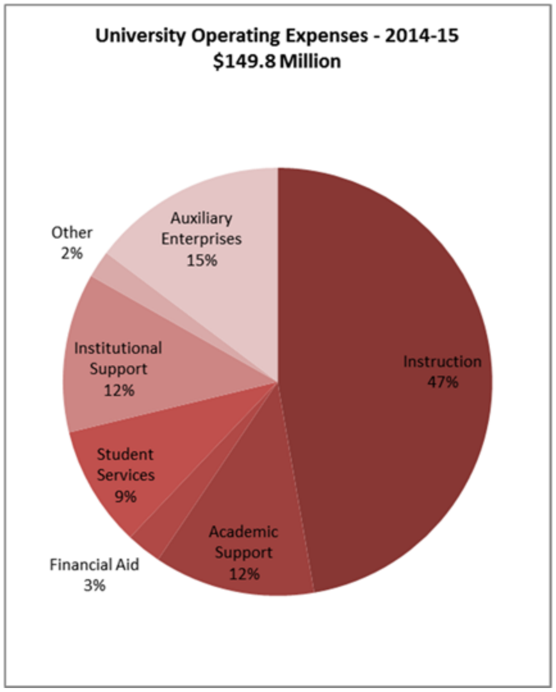

Figure 7

As in past years, comparisons of expenses within the "Top 25" group of liberal arts colleges, reveal that Washington and Lee consistently spends a higher percentage of its budget for educational expenses than the peer average (61.5% versus 52.1%). However, the University's aggregate expenses per student fall below the average expense per student of the peers by $8,500.

Results from Operations reflect an Unrestricted Operating deficit of $1.67 million versus an Unrestricted Operating deficit of $529,000 in 2014. In aggregate when looking at both unrestricted and temporarily restricted operations, the deficit shrank to $545,000 from $3.75 million reflecting an increase in temporarily restricted assets to underwrite future operations. It should be noted that the University does not formally budget for depreciation expense ($12.8 million in 2014-15 allocated across the functional expenditures in Fig. 7). However, we do budget for certain similar types of activities including principal payments on debt and annual capital projects. In addition, the Board of Trustees approved a change in the University's Reserves Policy in 2014 that was implemented this past year and, over time, should lead to an increase in the annual allocation to Capital Reserves which should be able to substitute for Depreciation budgeting. This is a long-term commitment and solution, but will help to remedy what has been the main focus area for improvement in our financial modeling. Beyond these steps, we also pursue significant fundraising to support specific projects within the capital program as an additional source of funding. We believe that this comprehensive approach to facilities capital management is a reasonable and thoughtful approach and puts us in a position to avoid a significant accumulation of deferred maintenance.

Summary and Outlook

The past several years have been a model demonstration of establishing a strategic plan that is both ambitious and consistent with staying true to mission. The plan was articulated in a manner that outlined initiatives that have strong philanthropic interests while also recognizing that other sources of funds, both internal and external, would be needed to fulfill the vision of the plan. While there are elements still to be completed from the current Strategic Plan, we can already see and demonstrate the successes. We have been able to invest in the core programs that benefit our undergraduate and law students while also being able to grow interdisciplinary programs and expand the pedagogical methods used in the curriculum.

This balance of ensuring that we continue to do what has worked well over the years while identifying and investing in the future of our faculty and students has long been a hallmark of the operational management of the University. The result is an institution that understands its identity and remains committed to providing long-term value to its students and alumni. The result is reflected in the accompanying financial statements: an endowment per student that places the University in the Top 25 of all higher education institutions in America; a financial aid program that has expanded the level of accessibility to deserving students of lesser means; an academic program that strives consistently to find greater opportunities to engage students in both curricular and co-curricular activities; and an environment that prides itself on the sense of community and long-lasting bonds that are established along the way.

We have reason to celebrate a successful year and the conclusion of a historic campaign. We will certainly do that while keeping an eye on how we continue to build upon this success to ensure the sustainability of the institution and its underlying values.

KPMG LLP
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Independent Auditors' Report

The Board of Trustees
The Washington and Lee University:

We have audited the accompanying consolidated financial statements of The Washington and Lee University and its affiliate (the University), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Washington and Lee University and its affiliate as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 23, 2015

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Financial Position

June 30, 2015 (with comparative
information as of June 30, 2014)

(In thousands)

Assets		**2015**	**2014**
Cash and cash equivalents	$	9,054	4,842
Accounts and other receivables		6,188	5,837
Notes receivable, net		6,801	7,094
Contributions receivable, net		73,471	49,027
Inventories		1,301	1,315
Investments		1,124,425	1,125,612
Funds held in trust by others		423,487	451,768
Unspent bond proceeds		51,117	21,238
Assets restricted to investment in land, buildings, and equipment		15,066	18,241
Land, buildings, and equipment, net		253,181	231,418
Debt issuance costs, net		1,499	1,112
Total assets	$	1,965,590	1,917,504
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	11,760	8,851
Accrued compensation		3,860	3,768
Student and other deposits		733	765
Deferred revenue		2,502	2,041
U.S. government grants refundable		1,967	1,985
Split interest agreement obligations		34,257	54,134
Asset retirement obligations		1,241	1,236
Capital lease obligations		1,571	1,142
Long-term debt		201,236	157,687
Postretirement benefit obligation		16,823	15,080
Total liabilities		275,950	246,689
Commitments and contingencies			
Net assets:			
Unrestricted		334,374	323,487
Temporarily restricted		455,713	443,811
Permanently restricted		899,553	903,517
Total net assets		1,689,640	1,670,815
Total liabilities and net assets	$	1,965,590	1,917,504

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Activities

Year ended June 30, 2015 (with summarized comparative information for the year ended June 30, 2014)

(In thousands)

	2015 Unrestricted	2015 Temporarily restricted	2015 Permanently restricted	2015 Total	2014 Total
Operating revenues and gains:					
Tuition and fees	$ 101,260	—	—	101,260	99,216
Less donor funded student financial aid	(22,694)	—	—	(22,694)	(22,009)
Less institutionally funded student financial aid	(19,231)	—	—	(19,231)	(17,787)
Net tuition and fees	59,335	—	—	59,335	59,420
Endowment return allocated to operations	37,211	6,607	—	43,818	41,619
Other investment income	472	135	—	607	609
Distributions from funds held in trust by others	12,476	73	—	12,549	11,604
Contributions	11,240	1,747	—	12,987	10,783
Auxiliary enterprises (net of $2,290 in 2015 and $2,158 in 2014 of institutionally funded student financial aid)	16,914	—	—	16,914	17,296
Governmental and other grants	—	2,350	—	2,350	2,289
Other	462	263	—	725	649
Net assets released from restrictions	10,050	(10,050)	—	—	—
Total operating revenues and gains	148,160	1,125	—	149,285	144,269
Operating expenses:					
Instruction	70,822	—	—	70,822	69,007
Research	2,053	—	—	2,053	2,665
Public service	1,033	—	—	1,033	954
Academic support	18,173	—	—	18,173	18,375
Financial aid	3,980	—	—	3,980	3,553
Student services	13,699	—	—	13,699	13,507
Institutional support	18,054	—	—	18,054	18,814
Auxiliary enterprises	22,016	—	—	22,016	21,143
Total operating expenses	149,830	—	—	149,830	148,018
Change in net assets from operating activities	(1,670)	1,125	—	(545)	(3,749)
Nonoperating activities:					
Investment return, net of amount allocated to operations	559	5,744	2,236	8,539	95,824
Change in value of funds held in trust by others	—	(382)	(29,662)	(30,044)	25,911
Split interest agreements, net	(157)	(3,204)	(3,405)	(6,766)	(4,876)
Contributions	—	22,370	26,412	48,782	27,300
Net assets released for fixed asset acquisitions	12,022	(12,022)	—	—	—
Postretirement charge other than benefit cost	(1,088)	—	—	(1,088)	81
Other, net	1,221	(1,729)	455	(53)	(2,391)
Total nonoperating activities	12,557	10,777	(3,964)	19,370	141,849
Change in net assets	10,887	11,902	(3,964)	18,825	138,100
Net assets:					
Beginning of year	323,487	443,811	903,517	1,670,815	1,532,715
End of year	$ 334,374	455,713	899,553	1,689,640	1,670,815

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Cash Flows

Year ended June 30, 2015 (with comparative
information for the year ended June 30, 2014)

(In thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	18,825	138,100
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Net realized and unrealized gains on investments		(46,249)	(131,948)
Depreciation and amortization		10,257	12,011
Contributions restricted for long-term investment in endowment and plant		(21,800)	(27,300)
Interest and dividends restricted for long-term investment		(1,001)	(1,226)
Changes in operating assets and liabilities:			
Accounts and other receivables, net		(59)	(1,179)
Contributions receivable, net		(24,444)	645
Inventories		14	(61)
Funds held in trust by others		28,281	(22,182)
Accounts payable and other accrued liabilities		2,273	797
Student and other deposits		(32)	(78)
Deferred revenue		461	(420)
U.S. government grants refundable		(18)	(36)
Split interest agreement obligations		6,589	6,360
Postretirement benefit obligations		1,743	519
Net cash and cash equivalents used in operating activities		(25,160)	(25,998)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(30,580)	(19,651)
Purchases of investments restricted to land, buildings, and equipment		(61,668)	(50,966)
Proceeds from sale of investments		367,702	366,747
Purchases of investments		(306,068)	(332,455)
Net cash and cash equivalents used in investing activities		(30,614)	(36,325)
Cash flows from financing activities:			
Principal payments on capital lease obligations		(438)	(207)
Interest and dividends restricted for long-term investment		1,001	1,226
Proceeds from contributions restricted for long-term investment in endowment and plant		19,689	27,749
Payments for debt issuance costs		(453)	(300)
Payments on split interest agreements		(3,588)	(4,193)
Proceeds from issuance of long-term debt		51,898	35,309
Principal payments on long-term debt		(8,123)	(2,138)
Net cash and cash equivalents provided by financing activities		59,986	57,446
Net increase(decrease) in cash and cash equivalents		4,212	(4,877)
Cash and cash equivalents:			
Beginning of year		4,842	9,719
End of year	$	9,054	4,842
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	7,710	7,331

Noncash investing and financing activities, in thousands:
At June 30, 2015 and 2014, $1,239 and $511, respectively, of fixed asset purchases were included in accounts payable and other accrued liabilities.
At June 30, 2015 and 2014, the University incurred capital lease obligations of $868 and $769, respectively, for equipment leases

See accompanying notes to consolidated financial statements.

(1) Description of Organization

The Washington and Lee University (W&L) is a private, liberal arts university in Lexington, Virginia. Founded in 1749; it is the ninth oldest institution of higher learning in the nation. W&L 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 W&L. W&L is comprised of the College, the Ernest Williams II School of Commerce, Economics and Politics, and the School of Law. There are approximately 1,800 undergraduate students and approximately 370 law students.

On November 15, 2010, Colonnade Restoration, LLC, a Virginia limited liability company and controlled affiliate of W&L, was formed for the purpose of restoring, rehabilitating, constructing and developing the historic buildings on W&L grounds known collectively as The Colonnade. Colonnade Restoration, LLC was formed so that the renovation expenditures incurred on the rehabilitation projects designated by the Virginia Department of Historic Resources will support Virginia Historic Tax Credits certified to Colonnade Restoration, LLC for allocation to its members. W&L has no membership interest in Colonnade Restoration, LLC but rather controls the affiliate through various leasing arrangements.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation and Consolidation

The consolidated financial statements include the financial statements of W&L and its affiliate Colonnade Restoration, LLC (collectively, the University). The consolidated financial statements have been prepared on the accrual basis of accounting and all significant intercompany balances and transactions have been eliminated in consolidation.

(b) 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 alternative investments, certain real estate holdings, post-retirement benefits obligations, estimated useful lives of land, buildings and equipment, and valuation of accounts and contributions receivable. Actual results could differ from those estimates.

(c) 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 classifies 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 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 consolidated statement of activities and are, therefore, reflected as permanently restricted net assets in the consolidated statement of financial position.

(d) Summarized Comparative Information

The consolidated statement of activities for the year ended June 30, 2015 is presented with certain summarized comparative information for the year ended June 30, 2014 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 consolidated financial statements for the year ended June 30, 2014 from which the summarized information was derived.

(e) 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, which are included in investments.

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

(f) Inventories

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

(g) Investments

Investments are reported at fair value. 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 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, real assets (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 valued at fair value determined from public quotations.

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 or law. 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 consolidated 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.

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 consolidated financial statements.

(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. Funds held in trust by others are reported at fair value. The fair values of the assets of funds held in trust by others are based upon quoted market prices of the underlying assets held in trust at year end. The fair value of the University's share of the assets is reflected in the consolidated statement of financial position and the income (including unrealized appreciation and depreciation) is recorded in the consolidated statement of activities.

(i) Split Interest Agreements

The University is a participating beneficiary in a number of split interest agreements such as charitable remainder trusts and charitable lead trusts. 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, 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.

 (Continued)

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of financial position.

(j) 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 and building improvements (10-30 years), buildings (30-50 years), and equipment (10 years). Equipment held under capital leases is stated at the present value of minimum lease payments and amortized over the shorter of the lease term or estimated useful life of the asset. 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.

(k) Recognition and Classification of Gifts

Contributions of cash and other assets, including unconditional promises to give, are recognized as revenue when the gifts are received by the University. Gifts are reported in the appropriate category of net assets in the consolidated statement of activities, except contributions that contain donor-imposed restrictions that are met in the same fiscal year. Gifts whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contribution revenue.

The University records gifts of cash and other assets as restricted support if they are received with donor-imposed restrictions or 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 consolidated 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.

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 consolidated statement of activities.

Unconditional promises to give that are expected to be collected within one year are recorded on the date of gift at net realizable values, which approximates fair value. The University uses present value techniques to measure the fair value on the date of gift of unconditional promises to give that are expected to be collected in future years. The discount rates used to compute the discounts on those amounts are determined at the time the unconditional pledges are initially recognized and are not revised subsequently. Amortization of the discounts is recorded as additional contribution revenues in accordance with the donor-imposed restrictions on the contributions. Subsequently, 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.

Conditional promises to give are not recognized as revenues until such time as the conditions are substantially met. The aggregate fair value of the conditional pledges received by the University is indeterminable as of June 30, 2015.

(l) Asset Retirement Obligations

The University has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities associated with the cost of removal and disposal of asbestos and fuel tanks. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's remaining useful life.

(m) Tuition and Fees and Auxiliary Revenue

Student tuition and fees and auxiliary revenue are recognized as revenue during the fiscal year in which the related academic services are rendered. Student tuition and fees and auxiliary revenue received in advance of services to be rendered are reported as deferred revenue in the consolidated statement of financial position. Student tuition and fees and auxiliary revenue are recorded in the consolidated statement of activities net of student financial aid provided to the student by the University. 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.

(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. Allocation of operations and maintenance of plant expenses was determined through a study of departmental uses of the operations and maintenance budget within each functional category.

(o) Operations

The University classifies revenues earned and expenses incurred related to its core missions of teaching, research and scholarship, and investment returns made available for current use as operating revenues or expenses in the consolidated statement of activities. All other activities, including contributions restricted by donors or designated for longer term use by the Board, are shown as a component of nonoperating activities.

(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 consolidated statement of financial position at their respective fair values. Changes in the fair value of derivative instruments are recorded as other non-operating activities on the consolidated 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.

(q) Income Taxes

The Washington and Lee University has been classified as an organization described under Section 501(c)(3) of the Internal Revenue Code and thus exempt from federal income taxes on activities related to its exempt purpose. The University does not believe that there are any unrecognized tax benefits or costs that should be recorded in the consolidated financial statements. Accordingly, no provision for income taxes has been reflected in the consolidated financial statements.

The Internal Revenue Service has held that a Virginia limited liability company, treated as a partnership for state income tax purposes, would also be treated as a partnership for federal income tax purposes. Therefore, income taxes are not provided with respect to the operations of Colonnade Restoration, LLC since each member is responsible for the income tax consequences associated with its proportionate share of such operations.

(r) Fair Value Measurements

Certain assets and liabilities are reported or disclosed at fair value in the consolidated financial statements. Fair value is defined 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. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The University determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

See note 7 for additional information with respect to fair value measurements.

(s) Recent Accounting Pronouncement

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for the University's fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, with early application permitted. The University elected to early adopt the provisions of ASU 2015-07 in fiscal year 2015 and has applied the amendments retrospectively to June 30, 2014.

(3) Notes Receivable

Notes receivable are carried at unpaid principal balance, less an allowance for doubtful accounts, and consist of the following at June 30, 2015 and 2014 (in thousands):

	Maturity	Interest rates		2015	2014
Student financial aid:					
Federally funded aid, net of allowance for doubtful accounts of $304 and $294, respectively	up to 10 years	3% – 5%	$	1,808	2,047
University funded aid, net of allowance for doubtful accounts of $342 and $311, respectively	up to 10 years	3% – 9%		3,446	3,349
Other notes:					
Note receivable from sale of property	10/31/2020	5%		1,501	1,628
Miscellaneous notes	various	various		46	70
			$	6,801	7,094

(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, 2015 and 2014 (in thousands):

		2015	2014
Less than one year	$	39,842	25,072
One year to five years		33,924	24,227
Over five years		1,646	1,038
Total contributions receivable, gross		75,412	50,337
Less allowance for uncollectible contributions		(741)	(497)
Total contributions receivable, net of allowance		74,671	49,840
Discount (rates ranging from 0.1% to 7.67%)		(1,200)	(813)
Total	$	73,471	49,027

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Land	$ 5,898	5,730
Land improvements	10,509	10,502
Buildings and improvements	334,978	333,568
Equipment	52,025	46,919
Art properties	3,918	3,451
	407,328	400,170
Less accumulated depreciation and amortization	(183,965)	(173,507)
	223,363	226,663
Construction in progress	29,818	4,755
Total	$ 253,181	231,418

(6) 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, 2015 and 2014 for each class of net asset is as follows (in thousands):

		Investment pool	Annuity and life income	Other	Total
2015:					
Net assets:					
Unrestricted	$	241,291	—	20,860	262,151
Temporarily restricted		353,197	24,488	—	377,685
Permanently restricted		456,898	27,691	—	484,589
Investments as of June 30, 2015	$	1,051,386	52,179	20,860	1,124,425
2014:					
Net assets:					
Unrestricted	$	205,288	—	56,605	261,893
Temporarily restricted		347,863	48,774	—	396,637
Permanently restricted		438,795	28,287	—	467,082
Investments as of June 30, 2014	$	991,946	77,061	56,605	1,125,612

Investments are comprised of the following at June 30, 2015 and 2014 (in thousands):

		2015	2014
Short-term investments	$	45,281	37,412
Equities		180,192	184,641
Fixed income		67,250	58,184
Real assets		41,076	65,364
Hedge funds		3,056	2,691
Mortgage loans to staff and fraternities		46,817	46,659
Multi-Asset Class (see below) *		710,847	699,476
Private equity/venture capital		29,906	31,185
Total	$	1,124,425	1,125,612

* This represents the University's investments in Makena Capital Management, LLC (Makena). Makena's Multi-Asset Class portfolio is diversified across geographies, strategies, and over 150 investment managers.

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

		2015	2014
Interest and dividend income	$	6,715	6,104
Net appreciation in fair value of investments, net of investment expenses of $1,392 and $1,099 in 2015 and 2014, respectively		46,249	131,948
Total investment return		52,964	138,052
Less investment return available under spending policy, including unrestricted amounts of $37,211 and $35,339 in 2015 and 2014, respectively, and temporarily restricted amounts of $6,607 and $6,280 in 2015 and 2014, respectively		(44,425)	(42,228)
Investment return in excess of amount available under spending policy	$	8,539	95,824

The University maintains a statement of investment policies and objectives which is approved by the Investment Committee and the Board of Trustees. The policy, which is reviewed no less than every two years, provides guidance on investment objectives, appropriate investment vehicles, asset allocation and spending policy for the endowment investments. In December 2007, the University employed Makena to manage the majority of the University's endowment funds. In so doing, the University has delegated the authority for asset allocation and manager selection to Makena, and in the period since the selection of Makena, the University has redeemed holdings from other managers (legacy investments) and placed those funds with Makena. As of June 30, 2015, approximately 68% of the University's endowment funds were held at Makena.

Makena utilizes both traditional and nontraditional investment strategies for the implementation of asset allocation. The single investment pooled fund is invested in approximately 150 individual managers across 7 asset classes and over 48 sub-asset class investment strategies. The portfolio is structured across the asset and sub-asset classes to generate performance in excess of relevant benchmarks while realizing substantially lower volatility than equity markets.

(Continued)

The portfolio as of June 30, 2015 and 2014 was allocated across the following asset classes as follows:

	2015	2014
Equity	17%	15%
Tactical hedged equity	10%	9%
Real estate	11%	11%
Private equity	20%	20%
Natural resources	10%	8%
Absolute return	23%	22%
Fixed income	9%	8%
Cash	—%	7%

The University has within its investments, those investments held by the University as trustee that provide payout to named beneficiaries but will ultimately be passed to the University. These funds are held at BNY Mellon and are invested primarily across a range of equity indexed products and fixed income indexed products in a more traditional investment approach. The majority of the funds are held in mutual fund products.

The following table summarizes the University's investments in entities that calculate net asset value per share, or its equivalent, as a practical expedient to estimate fair value as of June 30, 2015, as well as liquidity and funding commitments for those investments (in thousands):

	2015			
	Fair value	Unfunded commitments	Redemption frequency (if currently available)	Redemption notice period
Real assets	$ 38,177	—	*	*
Multi-Asset Class	710,847	37,500	Annual	1 year
Private equity/venture capital	29,906	1,388	*	*

* These are primarily limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take 10-12 years to fully distribute these assets.

(7) Fair Value Measurements

(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, unspent bond proceeds, assets restricted to investment in land, building, and equipment, 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 1.2% to 10.6% at June 30, 2015 and 2014.
- **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 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 valued at fair value determined from public quotations.

  Although the fair values of the assets of funds held in trust by others are based upon quoted prices at year-end, funds held in trust by others are categorized as Level 3 assets in the fair value hierarchy due to the University's lack of control over the trusts.
- **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 $220,390,000 and $181,031,000 as of June 30, 2015 and 2014, respectively. Fair values for 2015 and 2014 were estimated based on an average interest rate of 2.47% and 2.49%, respectively, the bond buyer municipal index rate for June 30, 2015 and 2014. 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. These inputs are considered Level 2 in the fair value hierarchy.

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

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2015 (in thousands):

	Total June 30, 2015	Fair value measurements at reporting date using Level 1	Level 2	Level 3	NAV[1]
Assets:					
Investments:					
Short-term investments	$ 45,281	37,986	7,295	—	—
Equities	180,192	180,149	—	43	—
Fixed income	67,250	66,861	20	369	—
Real assets	41,076	—	2,899	—	38,177
Hedge funds	3,056	3,056	—	—	—
Mortgage loans to staff and fraternities	46,817	—	46,817	—	—
Multi-Asset Class	710,847	—	—	—	710,847
Private equity/ ventture capital	29,906	—	—	—	29,906
Total investments	1,124,425	288,052	57,031	412	778,930
Funds held in trust by others	423,487	—	—	423,487	—
Total assets	$ 1,547,912	288,052	57,031	423,899	778,930
Liabilities:					
Interest rate swaps	$ 32	—	32	—	—

[1]*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated financial statements.*

There were no significant transfers between Level 1 and Level 2 investments for the year ended June 30, 2015.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2014 (in thousands):

		Total June 30, 2014	Fair value measurements at reporting date using			
			Level 1	Level 2	Level 3	NAV[1]
Assets:						
Investments:						
Short-term investments	$	37,412	30,123	7,289	—	—
Equities		184,641	184,600	—	41	—
Fixed income		58,184	58,038	20	126	—
Real assets		65,364	—	3,761	—	61,603
Hedge funds		2,691	2,691	—	—	—
Mortgage loans to staff and fraternities		46,659	—	46,659	—	—
Multi-Asset Class		699,476	—	—	—	699,476
Private equity/ ventture capital		31,185	—	—	—	31,185
Total investments		1,125,612	275,452	57,729	167	792,264
Funds held in trust by others		451,768	—	—	451,768	—
Total assets	$	1,577,380	275,452	57,729	451,935	792,264
Liabilities:						
Interest rate swaps	$	56	—	56	—	—

[1] *Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated financial statements.*

There were no significant transfers between Level 1 and Level 2 investments for the year ended June 30, 2014.

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 years ended June 30, 2015 and 2014 (in thousands):

		Investments	Funds held in trust by others	Total
Ending balance at June 30, 2013	$	92	429,586	429,678
Net realized and unrealized gains		24	37,515	37,539
Net purchases (maturities)		—	(3,729)	(3,729)
Contributions		51	—	51
Distributions		—	(11,604)	(11,604)
Ending balance at June 30, 2014		167	451,768	451,935
Net realized and unrealized gains (losses)		2	(16,401)	(16,399)
Net purchases (maturities)		—	(1,754)	(1,754)
Contributions		243	2,547	2,790
Distributions		—	(12,673)	(12,673)
Ending balance at June 30, 2015	$	412	423,487	423,899

For the years ended June 30, 2015 and 2014, there was approximately $27,637,000 and $25,935,000, respectively, of net unrealized gains included in the change in net assets that were attributable to Level 3 assets still held at June 30, 2015 and 2014.

(8) 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, 2015, the University holds 1,314 endowment funds, of which 1,219 are true endowments (restricted by the donor) and 95 are quasi-endowments (designated by the Board).

(a) Interpretation of Relevant Law

Based on the interpretation of Virginia's legislation, which incorporates the provisions of the Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA), by the Board of Trustees of the University, 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: the duration and preservation of the fund; the purposes of the University and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the University; and the investment policies of the University.

Endowment net assets consist of the following at June 30, 2015 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (10)	349,459	452,335	801,784
Board-designated endowment funds	246,003	—	—	246,003
Total endowed net assets	$ 245,993	349,459	452,335	1,047,787

Endowment net assets consist of the following at June 30, 2014 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1)	344,667	438,795	783,461
Board-designated endowment funds	242,694	—	—	242,694
Total endowed net assets	$ 242,693	344,667	438,795	1,026,155

(Continued)

Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	$	214,533	277,511	423,726	915,770
Investment return:					
Investment income		1,169	2,811	—	3,980
Net appreciation		31,218	96,355	—	127,573
Contributions and pledge payments		5,279	103	15,069	20,451
Appropriation for expenditure		(9,506)	(32,113)	—	(41,619)
Endowment net assets, June 30, 2014		242,693	344,667	438,795	1,026,155
Investment return:					
Investment income		737	1,520	—	2,257
Net appreciation		11,726	36,880	—	48,606
Contributions and pledge payments		819	228	13,540	14,587
Appropriation for expenditure		(9,982)	(33,836)	—	(43,818)
Endowment net assets, June 30, 2015	$	245,993	349,459	452,335	1,047,787

(b) 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 $10,000 and $1,000 as of June 30, 2015 and 2014, 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.

(c) 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.

(d) 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 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.

(e) 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 model is often referred to as a constant growth spending formula. The calculated spending rate was 4.39% and 4.68% for the years ended June 30, 2015 and 2014, respectively.

(9) Funds Held in Trust by Others

The majority of the funds held in trust by others comes from Letitia P. Evans' bequest of 15% of the annual net income of the Lettie Pate Evans Foundation, Inc. Restricted Fund. At June 30, 2015 and 2014, the fair value of the University's interest was reported by the trustees as $379,078,000 and $407,863,000, respectively. During the years ended June 30, 2015 and 2014, the University received distributions of $11,635,000 and $10,747,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2015 and 2014, the University maintained an interest in 45 other trusts with fair values reported by the trustees of approximately $44,409,000 and $43,905,000, respectively, and received distributions for the years ended June 30, 2015 and 2014 of $1,014,000 and $857,000, respectively.

(10) Long-Term Debt and Derivative Instruments

Long-term debt consists of the following obligations at June 30, 2015 and 2014 (in thousands):

	Final maturity	Interest rates	2015	2014
Virginia College Building Authority (VCBA):				
1998 Note, includes unamortized premium of $945 and $1,007, respectively (A)	January 2031	5.03% – 5.05%	$ 53,150	53,212
2001 Note, includes unamortized premium of $1,808 and $1,909, respectively (B)	January 2034	5.00% – 5.75%	44,808	44,909
2006 Note, includes unamortized premium of $221 and $241, respectively (C)	January 2016	4.00% – 5.00%	1,126	8,841
2015A Note, includes unamortized premium of $4,827 (D)	January, 2040	2.25%-5.00%	36,867	—
2015B Note (E)	January, 2043	Variable	15,000	—
Industrial Development Authority of the City of Lexington, Virginia (Lexington Authority):				
2003 Note (F)	April 2018	Variable	724	988
2010 Note (G)	January 2035	Variable	14,275	14,440
2013 Note, includes unamortized premium of $326 and $337, respectively (H)	January 2043	4.88%	35,286	35,297
			$ 201,236	157,687

(A) Semi-annual interest payments on this note began July 1, 1998 with annual principal payments commencing on January 1, 2022 and continuing until maturity in January 1, 2031.

(B) Semi-annual interest payments began January 1, 2002 with annual principal payments commencing January 1, 2016 and continuing until maturity in January 2034.

(C) 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 VCBA before January 1, 2016. 2006 Bonds maturing on or after January 1, 2017, may be redeemed at the option of the VCBA with direction of the University prior to their respective maturities in whole or in part at any time, on or after July 1,

2016. During fiscal year 2015, the University advance refunded all of the Series 2006 Bonds, except for an outstanding principal amount of $905,000, with the Series 2015A Bonds noted (D) below.

(D) In April 2015, the VCBA issued bonds in the amount of $32,040,000 and known as Series 2015A Bonds. The proceeds derived from the sale were loaned to the University in exchange for its Note. Such proceeds were used primarily to refund the Series 2006 Bonds, and finance the building of Upper Division Housing, Chapel Fire Suppression, Liberty Hall Fields, Davis Hall renovations and pay expenses incurred in connection with the issuance of the 2015A Bonds. Principal payments are payable annually on January 1, commencing January 1, 2017. Semi-annual interest payments on this note begin July 1, 2015 and then on each January 1 and July 1 thereafter. The 2015A Bonds that are stated to mature after January 1, 2026 are subject to redemption prior to maturity at the option of the VCBA (as directed by the University), in whole or in part, at any time on or after January 1, 2025, upon payment of 100% of the principal amount of the bonds to be redeemed plus interest accrued to the date fixed for redemption. At June 30, 2015, approximately $30 million of proceeds from the 2015A Bond issuance remained unspent. This amount is included in unspent bond proceeds in the consolidated statement of financial position.

(E) In April 2015, the VCBA issued bonds in the amount of $15,000,000 and known as Series 2015B Bonds. The proceeds derived from the sale were loaned to the University in exchange for its Note. Such proceeds were used primarily to finance the Upper Division Housing Project in conjunction with the Series 2015A Bonds and pay expenses incurred in connection with the issuance of the 2015B Bonds. Principal payments are payable annually on January 1, commencing January 1, 2036. These bonds have been structured at a variable interest rate with a weekly reset. The interest is paid monthly in arrears on the first of each month beginning May 1, 2015. The interest rates for the year ended June 30, 2015 ranged from 0.06% to 0.11%. At June 30, 2015, approximately $10 million of proceeds from the 2015B Bond issuance remained unspent. This amount is included in unspent bond proceeds in the consolidated statement of financial position.

(F) 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%. The interest rates for the year ended June 30, 2015 ranged from 0.15% to 0.18%.

(G) Annual principal and semi-annual interest payments on this note began January 1, 2012 and will mature January 1, 2035. The 2010 Bonds may be called for redemption upon notification by the University to the Lexington Authority. These bonds have been structured as variable rate demand bonds with a weekly reset. The interest rates for the year ended June 30, 2015 ranged from 0.02% to 0.11%.

(H) In July 2013, the Lexington Authority issued bonds in the amount of $34,960,000. The proceeds derived from the sale were loaned to the University in exchange for its Note. Such proceeds were used primarily to finance the renovations of Gaines Hall, Graham-Lees Dorms, and landscape improvements to the adjoining courtyard providing housing for first year students, and projects pursuant to the University’s Annual Capital Plan, including but not limited to: small-scale renovations and improvements of buildings, technology replacements and upgrades, vehicle replacements, campus landscaping, and athletic field and facility improvements. These bonds have been structured at a fixed rate of 4.88%. Semi-annual interest payments on this note began January 1, 2014 and will mature on January 1, 2043. The bonds are subject to redemption prior to maturity upon notification by the University to the Lexington Authority, in whole or in part, at any time on or after January 1, 2022, upon payment of 100% of the principal amount of the bonds to be redeemed plus interest accrued to the date fixed for redemption. At June 30, 2015, approximately $10 million of proceeds from the 2013 bond issuance remained unspent. This amount is included in unspent bond proceeds in the consolidated statement of financial position.

Aggregate principal payments due for the next five fiscal years are: 2016 – $4,148,000; 2017 – $4,123,000; 2018 – $4,258,000; 2019 – $4,270,000; 2020 – $4,495,000; and thereafter – $171,815,000.

Revolving Credit Agreement

The University has a Revolving Credit agreement with Branch Banking and Trust Company that permits the University to borrow through April 20, 2016 up to $15,000,000, bearing interest at an adjusted LIBOR rate by adding 30-day LIBOR plus one and one-quarter of one percent (1.25%) per annum; however, the interest rate shall not be less than two and one-quarter of one percent (2.25%). The University paid an origination fee of $5,000 for access to this liquidity. At June 30, 2015, the University had $15,000,000 available under this facility.

Interest Rate Swap Agreements

From time to time, the University enters into interest rate swap agreements with financial institutions to effectively convert the variable interest rates on a portion of its outstanding Notes to a fixed rate of interest. The fair values of the University's interest rate swaps at June 30, 2015 and 2014 (liabilities in both years) were $32,000 and $56,000, respectively, and changes in the fair values (gain in both years) of those swaps for the years ended June 30, 2015 and 2014 were $24,000 and $19,000, respectively.

(11) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes (in thousands):

		2015	2014
Financial aid	$	8,462	8,345
Faculty support		2,720	1,916
Program support		25,669	26,308
Buildings and equipment		16,271	19,385
Contributions receivable, for program support		43,863	31,683
Planned giving arrangements		10,660	13,062
Other		1,532	1,139
Accumulated appreciation on donor-restricted endowment funds, principally for program support and financial aid		346,536	341,973
Total	$	455,713	443,811

(b) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2015 and 2014 are comprised of the following (in thousands):

		2015	2014
Purpose restricted:			
Financial aid	$	268,456	261,414
Faculty support		40,568	37,728
Program support		536,285	560,709
Library and collections support		4,593	4,503
Buildings and equipment		5,146	4,566
Other		6,743	6,684
		861,791	875,604
Time and purpose restricted:			
Contributions receivable		30,146	17,925
Planned giving arrangements		7,616	9,988
		37,762	27,913
Total	$	899,553	903,517

(c) ***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, 2015 were as follows (in thousands):

Financial aid	$	1,539
Program support		3,747
Other		4,764
		10,050
Buildings and equipment		12,022
Total	$	22,072

(12) Expenses

Expenses for the years ended June 30, 2015 and 2014 were incurred for the following (in thousands):

		2015	2014
Salaries, wages and benefits	$	91,936	88,982
Supplies and services		32,842	34,936
Depreciation and amortization of buildings and equipment		12,791	12,135
Costs of sales, auxiliary enterprises		4,939	4,713
Interest		7,322	7,252
Total	$	149,830	148,018

(13) Retirement Plans

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) and Fidelity Management Trust Company (Fidelity). 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 or Fidelity. The University’s cost under this plan amounted to approximately $5,845,000 and $5,633,000 for the years ended June 30, 2015 and 2014, respectively.

The University also maintains a discretionary defined contribution retirement plan through TIAA-CREF. The Washington and Lee Retiree Health Plan (the Plan) exists for the purpose of providing postretirement medical benefits to eligible academic and nonacademic personnel of the University. Employer contributions for the years ended June 30, 2015 and 2014 totaled $18,000 and $74,000, respectively.

(Continued)

(14) 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, 2015 and 2014 were as follows (in thousands):

		2015	2014
Service cost (benefits attributed to employee service during the year)	$	279	327
Interest cost on accumulated postretirement benefit obligation		690	659
Amortization of prior service cost		282	92
Net periodic postretirement benefit cost	$	1,251	1,078

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 rates used in determining the accumulated postretirement benefit obligation (APBO) as of June 30, 2015 and 2014 was 4.25%. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 8% in 2015, decreasing to 5% over the next ten years.

(Continued)

The following information summarizes activity in the unfunded postretirement benefit plan for the years ended June 30, 2015 and 2014 (in thousands):

		2015	**2014**
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	15,080	14,561
Cummulative effect of plan change		1,172	—
Service cost		279	327
Interest cost		690	659
Actuarial loss		198	10
Net benefits paid		(596)	(477)
Accumulated benefit obligation, end of year	$	16,823	15,080
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:			
Net actuarial gain	$	(1,702)	(1,935)
Prior service cost		1,474	619
	$	(228)	(1,316)

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2016 – $860,000; 2017 – $1,027,000; 2018 – $1,159,000; 2019 – $1,301,000; and 2020 – $1,406,000. An additional $8,234,000 is expected to be paid for the fiscal years 2021 through 2025.

Total employer and participant contributions are $596,000 and $88,000, respectively, for the year ended June 30, 2015. Total benefits paid for the year ended June 30, 2015 are $684,000. The employer and participant contributions for the year ending June 30, 2016 are expected to be $696,000 and $164,000, respectively, for a total of $860,000 in benefits paid. The expense discount rate for both of the years ended June 30, 2015 and 2014 was 4.5%. The measurement date was June 30, 2015.

(15) Commitments

The University's contractual commitments for capital expenditures totaled approximately $50,369,000 at June 30, 2015, and were comprised of the following (in thousands):

Natatorium	$	17,235
Center for Global Learning		6,024
Residence halls, sorority, and fraternity upgrades		21,001
Law School renovations		2,696
Athletic facility upgrades		1,080
Various other projects		2,333
	$	50,369

(16) 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 85% and 87% of total funds held in trust by others as of June 30, 2015 and 2014, respectively.

(17) 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 consolidated financial statements.

From time to time, the University is involved in various legal proceedings which are 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.

(18) Subsequent Events

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2015 consolidated financial statements through October 23, 2015, the date the consolidated financial statements were issued, and determined that there are no other items to disclose.