THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

June 30, 2016

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Management's Discussion and Analysis

Highlights from 2015-16

- University grants and scholarships were awarded to 48.6% of the undergraduates with the average institutional grant or scholarship award at $41,340 (89% of tuition and mandatory fees). In 2006, the corresponding figures were 39.4% of undergraduates with average institutional award of $22,250 (78% of tuition and mandatory fees).
- This past year, the University was able to offer 152 summer Lenfest Grants to faculty to pursue their research and scholarship, 16 full-year Lenfest Sabbaticals, 93 Johnson Opportunity or Enhancement grants to students for research or other experiential opportunities and 89 additional grants to students for summer research or internships.
- Endowment (including funds held in trust by others) per Student increased to approximately $678,500. At the time Ken Ruscio became president, the endowment per student was just $387,000. In other words, this increase in value of 75% has been captured over the past ten years.
- Completed or substantially completed: the construction of the Center for Global Learning including the renovation of duPont Hall, the Upper Division Housing Village project, the second phase of Law School renovations, the upgrade of Liberty Hall Fields including repurposing of the "Boneyard" for parking and field sports, and phase two of the Stemmons Plaza renovation. In addition, continued work on the Natatorium with scheduled completion in early 2017. All of these projects were integral elements within the University's Strategic Plan.
- Total endowment assets and funds held in trust by others ended the fiscal year at a slightly higher mark of $1.472 billion in an investment market characterized by volatility and low or negative growth.
- Annual Fund reached a new high for funds raised at $10.31 million with undergraduate alumni participation at 53.3%.
- 2015-16 marked the lowest tuition increase in percentage terms in the last fifty-five years at 1.79%.

A Year of Transition

2015-16 was a year of transition. The University had completed the Capital Campaign on June 30, 2015, and the Strategic Plan that it had supported was moving into the final set of projects. The College and Williams School of Commerce have begun their processes for the development of their next strategic plan while the Law School worked through the transition of the admissions market and made the decision to become a smaller sized law school. It is during such periods that revenue diversity plays a key role. The strength of philanthropy through endowment, distributions from trusts held by others and gifts allow the University the time to plan and prepare for these transitions while net student revenues continue to play a role in sustaining the institution as well. Within the higher education community, this makes Washington and Lee an enviable institution in that future planning can be deliberate and proactive rather than reactive, as is the case for many private liberal arts colleges that remain highly tuition-dependent.

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 37% of all revenues and philanthropic sources for 50% of those revenues. This transition from being primarily a tuition-driven institution to one in which philanthropy acts as the major revenue factor will also lead us to give greater consideration 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 additions made to endowments have increased the number of students that we can reach with financial aid. In addition, we have been able to provide greater curricular and co-curricular activities for our students with expansion of summer research grants often in conjunction with a faculty member, Johnson Opportunity grants for study and research and expanded internships throughout the curriculum, but in particular the STEM areas. Faculty have also benefitted from the strengthened financial resources with 152 receiving Summer Lenfest Grant support, 16 receiving Lenfest Sabbatical Funding to make possible year-long sabbaticals and 10 Assistant Professors receiving funding for pre-tenure leaves to support their scholarship and research agendas.

Finally, it is worth noting that support of academic and student programs has also translated into improved facilities throughout the campus with the following projects either being started or completed during the 2015-16 year: duPont Hall/Center for Global Learning, Lewis Hall Clinical Spaces, the Natatorium, Tucker Hall and the Upper Division Housing Village. 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 a modest decline in total assets over the past year. From $1.966 billion as of June 30, 2015, the University's assets declined to $1.945 billion as of June 30, 2016. However, during Ken Ruscio's tenure as president, the University's assets have grown by $774 million. The major asset categories for the University are presented in Figure 1 below.

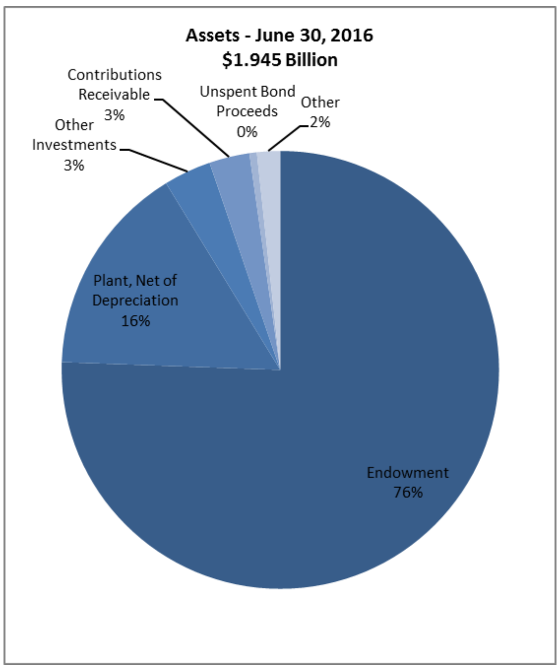

Figure 1

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 managed a very modest increase to $1.472 billion at June 30, 2016 (See Fig. 2).

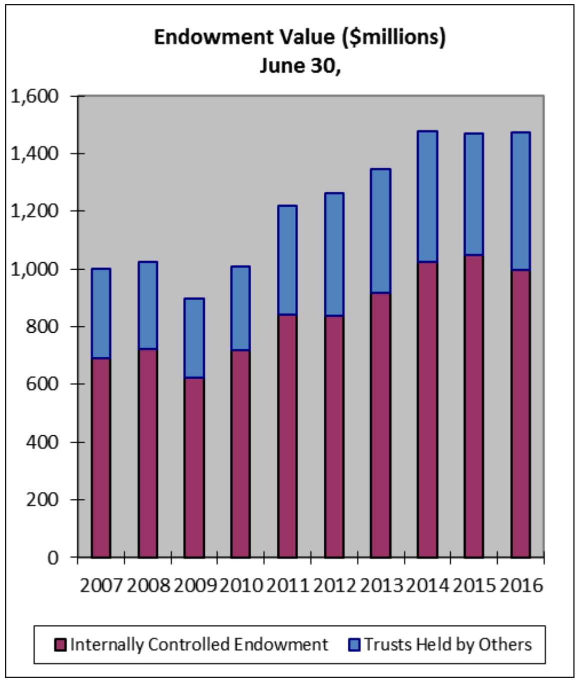

Figure 2

This was up slightly from $1.471 billion as of June 30, 2015. Investment returns for the internally managed endowment were down with a -1.38% return. This negative return coupled with the allocation from endowment for operating support of $48.6 million more than offset gifts and additions to endowment of $17.6 million. The internally controlled endowment stood at $995.4 million, a decrease of $52.4 million from June 30, 2015. In contrast to the internal endowment, the market value of Trusts Held by Others increased markedly by $53.6 million as stock of the Coca-Cola Company within the Lettie Pate Evans Restricted Fund Trust grew by 15.5% over the year. Distributions increased by $929,000 in FY 2016 to $13.48 million.

Returns on a nominal basis for endowment funds with external managers fell short of the University's long-term expected return (-1.4% versus 7.5%). This return, while falling short of our benchmark return target will still place us in the middle of college endowments on a one-year basis. Over the longer term, the annual return for the ten-year period ended June 30, 2016 of 5.73% places the endowment in the top forty percent of endowment performance (both statistics as measured by the Mellon Trust Endowment Universe). If one of the goals of endowment management is to achieve equity-like returns at lesser volatility, then we believe the Board of Trustees' Investment Committee has achieved this objective. Over the past year, the portfolio outperformed the All Country World Index (ACWI) by 2.3% at 70% of the volatility.

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 2015-16 year, the University completed the Upper Division Housing Village, duPont Hall/Center for Global Learning, extension of Stemmons Plaza to Washington Street, Davis Hall renovations for the Student Health Center and Information Technology Services, continued the construction for the Natatorium and started the fifth and final phase of the Colonnade project, Tucker Hall. These projects are funded through a combination of fundraising, debt and, to a much lesser extent, allocations from operations.

Moving forward, investment in facilities will continue to be structured to meet the University's strategic objectives. The Natatorium will open in the 2016-17 academic year and Tucker Hall will be completed over the summer of 2017 as will the continued renovation of Stemmons Plaza. The University has moved 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. Fundraising efforts for this project continue with the expected construction period running from June 2018 through August 2020.

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 were required to fund the majority of the residential improvements and expansion on the campus. At June 30, 2016, the University held $10.7 million in unspent bond proceeds which will be converted into physical facilities over the next year. 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, 2016, contributions receivable were valued at $58.1 million. This is down from $73.5 million at June 30, 2015, reflecting the payments made on pledges from the Campaign.

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 $48.1 million at the end of this most recent fiscal year, a drop from $52.2 million at the end of fiscal year 2015. This reduction reflects the combination of distributions to beneficiaries and the challenging return environment on investments.

<u>Liabilities</u>

On the other side of the ledger, the University has liabilities totaling $272.4 million. Three types of liabilities comprise 91% of this total: debt, future annuity payments and postretirement benefits. (See Fig. 3)

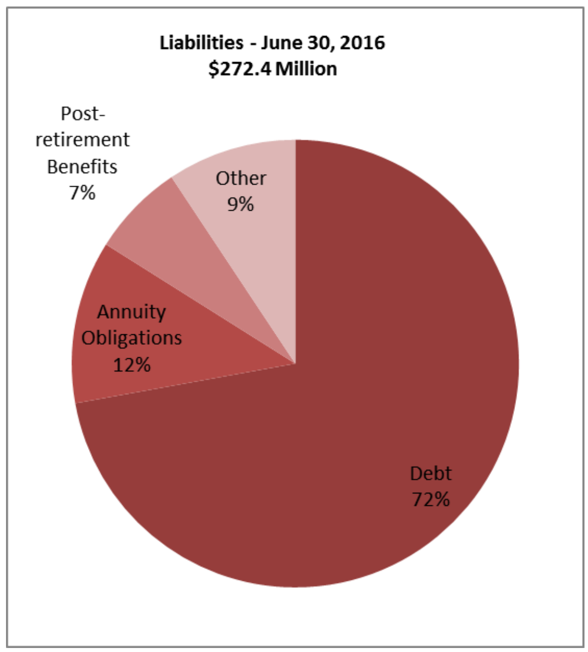

Figure 3

Debt: Washington and Lee University's largest liability is long-term debt that has been incurred over the years to support capital building projects. In recent 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). The 2015 Virginia College Building Authority issue of two series of bonds yielded $51.9 million in proceeds. Of those proceeds, $6.5 million were dedicated to advance refund a portion of the 2006 bonds (which are now defeased) while the balance has provided funding for the Upper Division Housing Village, Liberty Hall Field improvements, the renovation of Woods Creek Central apartments, renovations of Davis Hall to accommodate the Student Health Center and ITS and partial funding of the Natatorium project. This raised the outstanding long-term debt balance to $201.2 million at June 30, 2015. Over the past year, the University made $4.15 million of payments toward principal and $8.37 million in interest payments. Total debt now stands at $196.5 million and is composed of seven 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.

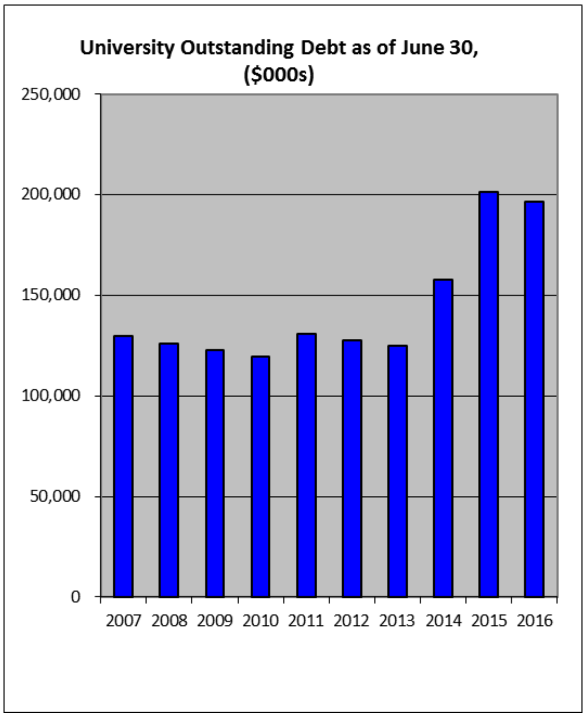

Figure 4

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 include a "Stable" outlook from the agencies. Importantly, these strong ratings reflect outside agencies' evaluations of the University's financial health and its ability to repay its obligations.

With the recent debt issues, the University is unlikely to add to its debt profile in the near-term future. While much of the recently issued 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, 2016, this liability was recorded at $32.1 million. It is reasonable to assume that the University would welcome an increasing liability in this area, since it would reflect a growing deferred-giving program, which would 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 $18.3 million, up from $16.8 million at June 30, 2015. 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 decrease by $1.79 million to $332.6 million at June 30, 2016.

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 declined this year from $455.7 million to $378.5 million as of June 30, 2016, as a result of the negative investment return environment and the use of funds for prescribed capital projects and program purposes.

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 increased by $65.5 million to $965.0 million. This increase primarily results from the increase in the value of the Lettie Pate Evans Restricted Fund.

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

Table 1

Summary Statement of Financial Position June 30, 2016 ($000s)	
Assets:	
Cash and Cash Equivalents	$ 13,430
Accounts and Notes Receivable	11,972
Contributions Receivable, net	58,130
Inventories	1,378
Investments	1,063,715
Funds Held in Trust by Others	477,102
Unspent Bond Proceeds	10,668
Assets Restricted to Investment in Plant	5,322
Land, Buildings and Equipment, net	305,544
Other Assets	1,287
Total Assets	$ 1,948,548
Liabilities:	
Accounts and Other Payables	$ 14,557
Accrued Compensation	3,585
Student and Other Deposits	589
Deferred Revenue	2,121
U.S. Government Grants Refundable	2,025
Annuity Obligations	32,083
Asset Retirement Obligations	1,252
Capital Lease Obligations	1,295
Long-term Debt	196,527
Postretirement Benefit Obligations	18,329
Total Liabilities	272,363
Net Assets:	
Unrestricted	332,630
Temporarily Restricted	378,534
Permanently Restricted	965,021
Total Net Assets	1,676,185
Total Liabilities and Net Assets	$ 1,948,548

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 depicted in Figure 5.

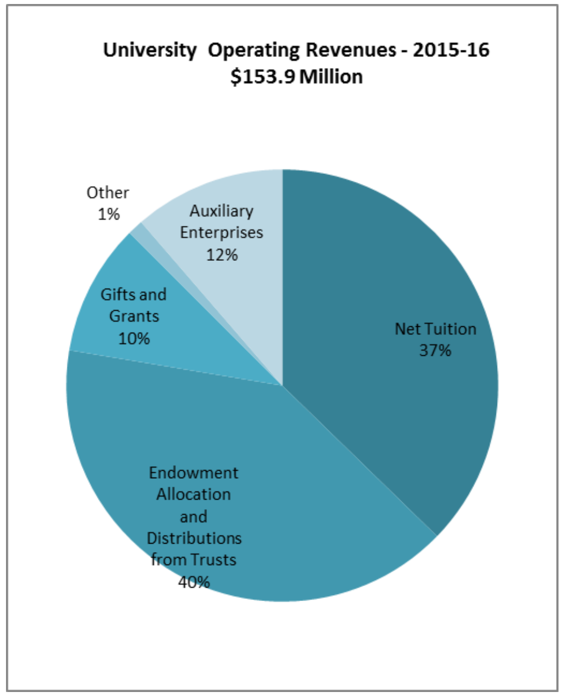

Figure 5

Tuition remains a vital source of operational support; however, it is important to understand the context around costs, stated tuition and net tuition. In 2015-16, the University incurred a cost on average of $60,161 per student for educational and student services. The stated tuition and mandatory fees rate was $46,417 and the average tuition and fees paid by families after financial aid was just $23,467. Every student received a subsidy toward their education of at least $13,744, and for one-half of the population, the subsidy was expanded through financial aid. This is the financial value proposition of a W&L education and has been an area of focus in the current strategic plan and the most recent Capital Campaign.

In 2015-16, net tuition revenues declined by 3.3% to $57.4 million. This result occurred as enrollments declined. In the Law School, the number of students fell by 15% as the University adjusted to the changes in the marketplace for legal education. On the undergraduate side, we saw the number of full-time students decrease by 28 as a very large class graduated in spring 2015, and we made adjustments in the entering class size to move closer to our long-planned target first year class of 461. Financial Aid continues to be significantly funded through endowment and gifts (53.4% in 2015-16) 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, 2016 ($000s)		
Revenues:		
Gross Tuition	$	97,767
Less donor funded student financial aid		(24,998)
Less institutionally funded student aid		(15,374)
Net Tuition		57,395
Endowment Return Allocated to Operations		48,614
Income from Funds Held in Trust by Others		13,478
Contributions and Grants		15,207
Auxiliary Enterprises (net of $2,036 of aid)		17,451
Other		1,797
Total		**153,942**
Expenses:		
Instructional		71,151
Academic Support		18,897
Student Services		13,527
Institutional Support		19,604
Financial Aid		4,434
Auxiliary Enterprises		23,567
Other		2,932
Total		**154,112**
Operating Deficit		(170)
Decrease in Net Assets from Non-Operating Activities		(13,285)
Change in Net Assets	**$**	**(13,455)**

In reading the University's operating results, 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 ($40.37 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $2.04 million. Finally, within the Expenses section, there is a line item for Financial Aid that totals $4.43 million. This amount represents awards that exceed tuition, room and board. On a combined basis, student financial aid awarded by the University in 2015-16 was $46.8 million reaching 49% of the undergraduate student population and 90% of law students.

Endowment distributions, whether from the defined payout formula or allocations from Trusts Held by Others, accounted for 40.3% of the operating revenues in 2015-16, at $62.1 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. In 2015-16, the University followed its normal spending formula of increasing endowment spending by inflation plus one percent. This amount was supplemented by an adjustment in law school endowment payout at 7.5%. These two elements when combined translated to a spending rate of 4.65% which fell below the policy spending cap of 5%.

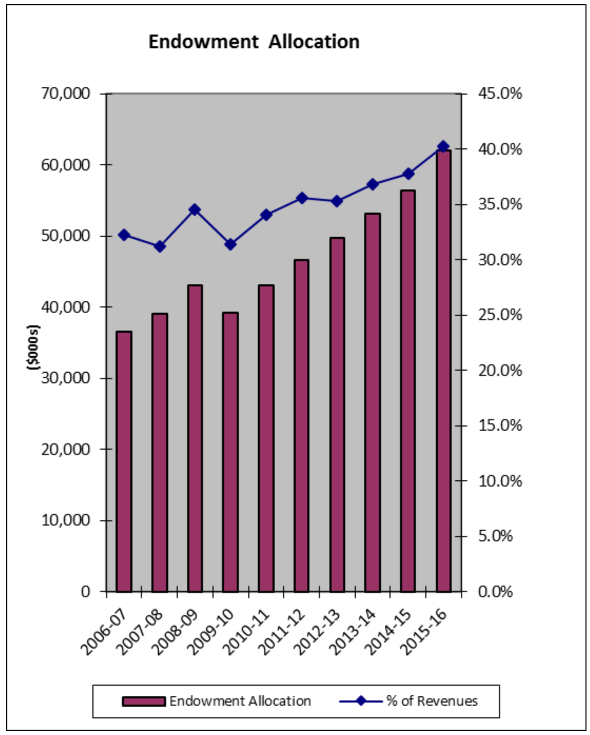

Figure 6

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 2015-16, the Annual Fund exceeded $10.3 million, a new high water mark for the fund. In addition, the University maintained a high undergraduate alumni participation with 53.3% making gifts. These unrestricted gifts underwrite all aspects of University life. In the aggregate, Washington and Lee received $15.2 million in expendable contributions and grants in 2015-16 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 $327 million in endowment funds.

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 13% of expenditures go toward administration, including fund-raising.

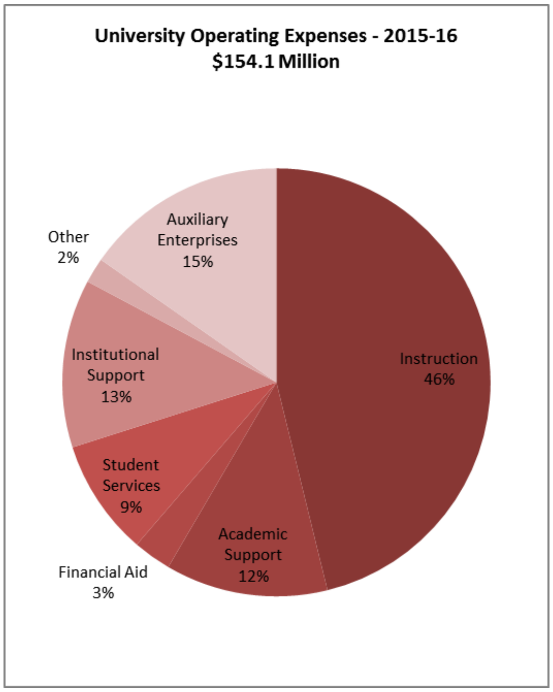

Figure 7

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 nearly $9,500.

Results from Operations reflect an Unrestricted Operating deficit of $128,000 versus an Unrestricted Operating deficit of $1.67 million in 2015. In aggregate when looking at both unrestricted and temporarily restricted operations, the deficit grows modestly to $170,000 reflecting a small decrease in temporarily restricted assets in support of future operations. The University's budget model reflects a modified cash flow approach in which depreciation expense ($13.5 million in 2015-16 allocated across functional expenditures in Fig. 7)) is not captured; however, items for principal payments on debt and the annual allocation to capital projects are included within the model. Additionally, the Board of Trustees approved a change in the University's Reserves Policy in 2014 that will, over time, 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 strengthens our position to avoid a significant accumulation of deferred maintenance.

Summary and Outlook

This past year was one of transition as we began to adjust to planned changes in enrollment partially driven by external forces (the legal education market) and partially driven by internal desire to return to an undergraduate enrollment size that is consistent with our long-term targets. In addition, we continued to benefit from the growth in endowment that had resulted from the Campaign but also experienced lower investment returns and slowing of gift growth. In many ways this is the normal ebb and flow that academic institutions have felt over the years. It is important to recognize that these are recurring trends that are necessary to ensure that gains made in programming and access are maintained while at the same time building towards the next set of initiatives that can advance the academic program and opportunities for our students.

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 this University. This core objective has led to 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 traditions and values of the past while being diligent to ensure an even brighter future.

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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, 2016, 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.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 25, 2016

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Financial Position

June 30, 2016 (with comparative
information as of June 30, 2015)

(In thousands)

Assets		**2016**	**2015**
Cash and cash equivalents	$	13,430	9,054
Accounts and other receivables		5,274	6,188
Notes receivable, net		6,698	6,801
Contributions receivable, net		58,130	73,471
Inventories		1,378	1,301
Investments		1,063,715	1,124,425
Funds held in trust by others		477,102	423,487
Unspent bond proceeds		10,668	51,117
Assets restricted to investment in land, buildings, and equipment		5,322	15,066
Land, buildings, and equipment, net		305,544	253,181
Debt issuance costs, net		1,287	1,499
Total assets	$	1,948,548	1,965,590
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	14,557	11,760
Accrued compensation		3,585	3,860
Student and other deposits		589	733
Deferred revenue		2,121	2,502
U.S. government grants refundable		2,025	1,967
Split interest agreement obligations		32,083	34,257
Asset retirement obligations		1,252	1,241
Capital lease obligations		1,295	1,571
Long-term debt		196,527	201,236
Postretirement benefit obligation		18,329	16,823
Total liabilities		272,363	275,950
Commitments and contingencies			
Net assets:			
Unrestricted		332,630	334,374
Temporarily restricted		378,534	455,713
Permanently restricted		965,021	899,553
Total net assets		1,676,185	1,689,640
Total liabilities and net assets	$	1,948,548	1,965,590

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Activities

Year ended June 30, 2016 (with summarized comparative information for the year ended June 30, 2015)

(In thousands)

	2016 Unrestricted	2016 Temporarily restricted	2016 Permanently restricted	2016 Total	2015 Total
Operating revenues and gains:					
Tuition and fees	$ 97,767	—	—	97,767	101,260
Less donor funded student financial aid	(24,998)	—	—	(24,998)	(22,694)
Less institutionally funded student financial aid	(15,374)	—	—	(15,374)	(19,231)
Net tuition and fees	57,395	—	—	57,395	59,335
Endowment return allocated to operations	41,569	7,045	—	48,614	43,818
Other investment income	829	136	—	965	607
Distributions from funds held in trust by others	13,377	101	—	13,478	12,549
Contributions	11,535	2,454	—	13,989	12,987
Auxiliary enterprises (net of $2,036 in 2016 and $2,290 in 2015 of institutionally funded student financial aid)	17,451	—	—	17,451	16,914
Governmental and other grants	—	1,218	—	1,218	2,350
Other	609	223	—	832	725
Net assets released from restrictions	11,219	(11,219)	—	—	—
Total operating revenues and gains	153,984	(42)	—	153,942	149,285
Operating expenses:					
Instruction	71,151	—	—	71,151	70,822
Research	1,889	—	—	1,889	2,053
Public service	1,043	—	—	1,043	1,033
Academic support	18,897	—	—	18,897	18,173
Financial aid	4,434	—	—	4,434	3,980
Student services	13,527	—	—	13,527	13,699
Institutional support	19,604	—	—	19,604	18,054
Auxiliary enterprises	23,567	—	—	23,567	22,016
Total operating expenses	154,112	—	—	154,112	149,830
Change in net assets from operating activities	(128)	(42)	—	(170)	(545)
Nonoperating activities:					
Investment return, net of amount allocated to operations	(17,848)	(54,725)	2,321	(70,252)	8,539
Change in value of funds held in trust by others	—	(965)	56,735	55,770	(30,044)
Split interest agreements, net	(67)	(1,086)	(1,298)	(2,451)	(6,766)
Contributions	—	99	4,470	4,569	48,782
Net assets released for fixed asset acquisitions	15,828	(15,828)	—	—	—
Postretirement charge other than benefit cost	(898)	—	—	(898)	(1,088)
Other, net	1,369	(4,632)	3,240	(23)	(53)
Total nonoperating activities	(1,616)	(77,137)	65,468	(13,285)	19,370
Change in net assets	(1,744)	(77,179)	65,468	(13,455)	18,825
Net assets:					
Beginning of year	334,374	455,713	899,553	1,689,640	1,670,815
End of year	$ 332,630	378,534	965,021	1,676,185	1,689,640

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Statement of Cash Flows

Year ended June 30, 2016 (with comparative
information for the year ended June 30, 2015)

(In thousands)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(13,455)	18,825
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Net realized and unrealized losses (gains) on investments		29,765	(46,249)
Depreciation and amortization		13,493	10,257
Contributions restricted for long-term investment in endowment and plant		(23,163)	(21,800)
Interest and dividends restricted for long-term investment		(716)	(1,001)
Changes in operating assets and liabilities:			
Accounts and other receivables, net		1,017	(59)
Contributions receivable, net		15,341	(24,444)
Inventories		(77)	14
Funds held in trust by others		(53,615)	28,281
Accounts payable and other accrued liabilities		946	2,273
Student and other deposits		(144)	(32)
Deferred revenue		(381)	461
U.S. government grants refundable		58	(18)
Split interest agreement obligations		2,765	6,589
Postretirement benefit obligations		1,506	1,743
Net cash and cash equivalents used in operating activities		(26,660)	(25,160)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(64,388)	(30,580)
Purchases of investments restricted to land, buildings, and equipment		(9,321)	(61,668)
Proceeds from sale of investments		350,429	367,702
Purchases of investments		(259,785)	(306,068)
Net cash and cash equivalents provided by (used in) investing activities		16,935	(30,614)
Cash flows from financing activities:			
Principal payments on capital lease obligations		(506)	(438)
Interest and dividends restricted for long-term investment		716	1,001
Proceeds from contributions restricted for long-term investment in endowment and plant		22,898	19,689
Payments for debt issuance costs		—	(453)
Payments on split interest agreements		(4,859)	(3,588)
Proceeds from issuance of long-term debt		—	51,898
Principal payments on long-term debt		(4,148)	(8,123)
Net cash and cash equivalents provided by financing activities		14,101	59,986
Net increase in cash and cash equivalents		4,376	4,212
Cash and cash equivalents:			
Beginning of year		9,054	4,842
End of year	$	13,430	9,054
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	8,367	7,710

Noncash investing and financing activities, in thousands:

At June 30, 2016 and 2015, $2,816 and $1,239, respectively, of fixed asset purchases were included in accounts payable and other payables.

At June 30, 2016 and 2015, the University incurred capital lease obligations of $229 and $868, 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 320 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 and building improvements, 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, 2016 is presented with certain summarized comparative information for the year ended June 30, 2015 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, 2015 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 and amortization of the discount to reflect the current market conditions. 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 (5- 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 recognize 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.

(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) Future Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-14 defers the effective date of ASU 2014-09, *Revenue from Contract with Customers (Topic 606)*, for public entities, which includes not-for-profit entities with public debt, from annual reporting periods beginning after December 15, 2016, to annual reporting periods beginning after December 15, 2017, for Washington and Lee University the requirement will be applied beginning with the 2018-2019 fiscal year. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The University is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements and disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 requires retrospective adoption and will be effective for the University beginning July 1, 2016.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 824)*, will replace most existing lease guidance in U.S. generally accepted accounting principles when it becomes effective for public entities, which includes not-for-profit entities with public debt, for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The University is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities*. The amendments in ASU 2016-14 make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments in ASU 2016-14 set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in ASU 2016-14 is permitted.

The amendments in ASU 2016-14 should be applied on a retrospective basis in the year that it is first applied. However, if presenting comparative financial statements, a not-for-profit entity has the option to omit certain specified information for any periods presented before the period of adoption. The University is currently assessing the impact that ASU 2016-14 will have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle.

The amendments in ASU 2016-15 apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments in ASU 2016-15 are effective for not-for-profit entities for fiscal years beginning after December 15, 2018; early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in ASU 2016-15 should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The University is currently assessing the impact that ASU 2016-15 will have on its consolidated financial statements and disclosures.

(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, 2016 and 2015 (in thousands):

	Maturity	Interest rates		2016	2015
Student financial aid:					
Federally funded aid, net of allowance for doubtful accounts of $266 and $304, respectively	up to 10 years	3% – 5%	$	1,503	1,808
University funded aid, net of allowance for doubtful accounts of $406 and $342, respectively	up to 10 years	3% – 9%		3,653	3,446
Other notes:					
Note receivable from sale of property	10/31/2020	5%		1,501	1,501
Miscellaneous notes	various	various		41	46
			$	6,698	6,801

(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, 2016 and 2015 (in thousands):

		2016	2015
Less than one year	$	33,021	39,842
One year to five years		25,566	33,924
Over five years		865	1,646
Total contributions receivable, gross		59,452	75,412
Less allowance for uncollectible contributions		(587)	(741)
Total contributions receivable, net of allowance		58,865	74,671
Discount (rates ranging from -0.44% to 6.54%)		(735)	(1,200)
Total	$	58,130	73,471

(Continued)

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2016 and 2015 consist of the following (in thousands):

	2016	2015
Land	$ 6,124	5,898
Land improvements	16,005	10,509
Buildings and improvements	403,010	334,978
Equipment	56,905	52,025
Art properties	4,111	3,918
	486,155	407,328
Less accumulated depreciation and amortization	(198,133)	(183,965)
	288,022	223,363
Construction in progress	17,522	29,818
Total	$ 305,544	253,181

(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, 2016 and 2015 for each class of net asset is as follows (in thousands):

		Investment pool	Annuity and life income	Other	Total
2016:					
Net assets:					
Unrestricted	$	232,440	—	16,831	249,271
Temporarily restricted		298,159	21,408	—	319,567
Permanently restricted		468,177	26,700	—	494,877
Investments as of June 30, 2016	$	998,776	48,108	16,831	1,063,715
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

Investments are comprised of the following at June 30, 2016 and 2015 (in thousands):

		2016	2015
Short-term investments	$	38,726	45,281
Equities		174,145	180,192
Fixed income		62,277	67,250
Real assets		33,386	41,076
Hedge funds		3,477	3,056
Mortgage loans to staff and fraternities		50,238	46,817
Multi-Asset Class (see below) *		675,724	710,847
Private equity/venture capital		25,742	29,906
Total	$	1,063,715	1,124,425

* 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):

		2016	2015
Interest and dividend income	$	9,092	6,715
Net appreciation in fair value of investments, including investment (depreciation) appreciation of $1,832 and $1,392 in 2016 and 2015, respectively		(29,765)	46,249
Total investment return		(20,673)	52,964
Less investment return available under spending policy, including unrestricted amounts of $41,569 and $37,211 in 2016 and 2015, respectively, and temporarily restricted amounts of $7,045 and $6,607 in 2016 and 2015, respectively		(49,579)	(44,425)
Investment return in excess of amount available under spending policy	$	(70,252)	8,539

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, 2016, 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.

The portfolio as of June 30, 2016 and 2015 was allocated across the following asset classes as follows:

	2016	**2015**
Equity	16%	17%
Tactical hedged equity	10%	10%
Real estate	12%	11%
Private equity	20%	20%
Natural resources	10%	10%
Absolute return	20%	23%
Fixed income	8%	9%
Cash	4%	—%

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 reported using net asset value per share, or its equivalent, as a practical expedient to estimate fair value as of June 30, 2016, as well as liquidity and funding commitments for those investments (in thousands):

	2016			
	Fair value	**Unfunded commitments**	**Redemption frequency (if currently available)**	**Redemption notice period**
Real assets	$ 30,680	—	*	*
Multi-Asset Class	675,724	—	Annual	1 year
Private equity/venture capital	25,742	34,350	*	*

* 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.

- **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, 2016 and 2015.

- **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 $232,771,000 and $220,390,000 as of June 30, 2016 and 2015, respectively. Fair values for 2016 and 2015 were estimated based on an average interest rate of 1.85% and 2.47%, respectively, the bond buyer municipal index rate for June 30, 2016 and 2015. 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, 2016 (in thousands):

	Total June 30, 2016	Fair value measurements at reporting date using Level 1	Level 2	Level 3	NAV[1]
Assets:					
Investments:					
Short-term investments	$ 38,726	30,405	8,321	—	—
Equities	174,144	174,124	—	20	—
Fixed income	62,277	61,888	20	369	—
Real assets	33,387	—	2,707	—	30,680
Hedge funds	3,477	3,477	—	—	—
Mortgage loans to staff and fraternities	50,238	—	50,238	—	—
Multi-Asset Class	675,724	—	—	—	675,724
Private equity/ ventture capital	25,742	—	—	—	25,742
Total investments	1,063,715	269,894	61,286	389	732,146
Funds held in trust by others	477,102	—	—	477,102	—
Total assets	$ 1,540,817	269,894	61,286	477,491	732,146
Liabilities:					
Interest rate swaps	$ 15	—	15	—	—

[1]*Certain investments that are measured at fair value using net asset value per share (or its equivalent) as a 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 investment levels for the year ended June 30, 2016.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 net asset value per share (or its equivalent) as a 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 investment levels for the year ended June 30, 2015.

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, 2016 and 2015 (in thousands):

	Investments	Funds held in trust by others	Total
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
Net realized and unrealized gains (losses)	(6)	64,238	64,232
Net purchases (maturities)	—	2,898	2,898
Contributions	—	—	—
Distributions	(17)	(13,521)	(13,538)
Ending balance at June 30, 2016	$ 389	477,102	477,491

(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, 2016, the University holds 1,340 endowment funds, of which 1,244 are true endowments (restricted by the donor) and 96 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, 2016 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (813)	295,261	468,177	762,625
Board-designated endowment funds	232,758	—	—	232,758
Total endowed net assets	$ 231,945	295,261	468,177	995,383

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

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Investment return:					
Investment income		707	4,834	—	5,541
Net depreciation		(5,334)	(21,642)	—	(26,976)
Contributions and pledge payments		1,147	656	15,842	17,645
Appropriation for expenditure		(10,568)	(38,046)	—	(48,614)
Endowment net assets, June 30, 2016	$	231,945	295,261	468,177	995,383

(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 $813,000 and $10,000 as of June 30, 2016 and 2015, 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 4.46% and 4.39% for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the fair value of the University's interest was reported by the trustees as $437,393,000 and $379,078,000, respectively. During the years ended June 30, 2016 and 2015, the University received distributions of $12,567,000 and $11,635,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2016 and 2015, the University maintained an interest in 42 other trusts with fair values reported by the trustees of approximately $39,709,000 and $44,409,000, respectively, and received distributions for the years ended June 30, 2016 and 2015 of $911,000 and $1,014,000, respectively.

(10) Long-Term Debt and Derivative Instruments

Long-term debt consists of the following obligations at June 30, 2016 and 2015 (in thousands):

	Final maturity	Interest rates	2016	2015
Virginia College Building Authority (VCBA):				
1998 Note, includes unamortized premium of $880 and $945, respectively (A)	January 2031	5.03% – 5.05%	$ 53,084	53,150
2001 Note, includes unamortized premium of $1,708 and $1,808, respectively (B)	January 2034	5.00% – 5.75%	41,903	44,808
2006 Note, includes unamortized premium of $0 and $221, respectively (C)	January 2016	4.00% – 5.00%	—	1,126
2015A Note, includes unamortized premium of $4,665 and $4,827, respectively (D)	January, 2040	2.25%-5.00%	36,705	36,867
2015B Note (E)	January, 2043	Variable	15,000	15,000
Industrial Development Authority of the City of Lexington, Virginia (Lexington Authority):				
2003 Note (F)	April 2018	Variable	461	724
2010 Note (G)	January 2035	Variable	14,100	14,275
2013 Note, includes unamortized premium of $314 and $326, respectively (H)	January 2043	4.88%	35,274	35,286
			$ 196,527	201,236

(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. 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 began 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, 2016, approximately $8.6 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, 2016 ranged from 0.01% to 0.4%. At June 30, 2016, approximately $2 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, 2016 ranged from 0.19% to 0.46%.

(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, 2016 ranged from 0.01% to 0.4%.

(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. These bonds have been structured at a fixed rate of 4.88%.

Aggregate principal payments due for the next five fiscal years are: 2017 – $4,123,000; 2018 – $4,258,000; 2019 – $4,270,000; 2020 – $4,495,000; 2021 – $5,095,000; and thereafter – $166,720,000.

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, 2017 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, which shall be adjusted monthly on the first day of each month. The University paid an origination fee of $1,500 for access to this liquidity. At June 30, 2016, 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, 2016 and 2015 (liabilities in both years) were $15,000 and $32,000, respectively, and changes in the fair values (gain in both years) of those swaps for the years ended June 30, 2016 and 2015 were $17,000 and $24,000, respectively.

(11) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes (in thousands):

		2016	2015
Financial aid	$	9,475	8,462
Faculty support		2,558	2,720
Program support		21,560	25,669
Buildings and equipment		6,838	16,271
Contributions receivable, for program support		35,630	43,863
Planned giving arrangements		8,707	10,660
Other		2,036	1,532
Accumulated appreciation on donor-restricted endowment funds, principally for program support and financial aid		291,730	346,536
Total	$	378,534	455,713

(b) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 and 2015 are comprised of the following (in thousands):

		2016	2015
Purpose restricted:			
Financial aid	$	273,598	268,456
Faculty support		41,916	40,568
Program support		601,913	536,285
Library and collections support		4,667	4,593
Buildings and equipment		5,420	5,146
Other		6,774	6,743
		934,288	861,791
Time and purpose restricted:			
Contributions receivable		23,065	30,146
Planned giving arrangements		7,668	7,616
		30,733	37,762
Total	$	965,021	899,553

(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, 2016 were as follows (in thousands):

Financial aid	$	2,552
Program support		4,600
Other		4,067
		11,219
Buildings and equipment		15,828
Total	$	27,047

(12) Expenses

Expenses for the years ended June 30, 2016 and 2015 were incurred for the following (in thousands):

		2016	2015
Salaries, wages and benefits	$	94,711	91,936
Supplies and services		33,376	32,842
Depreciation and amortization of buildings and equipment		13,978	12,791
Costs of sales, auxiliary enterprises		5,060	4,939
Interest		6,992	7,322
Total	$	154,117	149,830

(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 (TIAA) 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 or Fidelity. The University’s cost under this plan amounted to approximately $6,068,000 and $5,845,000 for the years ended June 30, 2016 and 2015, respectively.

The University also maintains a discretionary defined contribution retirement plan through TIAA. 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, 2016 and 2015 totaled $126,000 and $18,000, respectively.

(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, 2016 and 2015 were as follows (in thousands):

		2016	2015
Service cost (benefits attributed to employee service during the year)	$	264	279
Interest cost on accumulated postretirement benefit obligation		712	690
Amortization of prior service cost		315	282
Net periodic postretirement benefit cost	$	1,291	1,251

(Continued)

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, 2016 and 2015 was 3.5% and 4.5%, respectively. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 7.5% in 2016, decreasing to 4.5% over the next ten years.

The following information summarizes activity in the unfunded postretirement benefit plan for the years ended June 30, 2016 and 2015 (in thousands):

		2016	2015
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	16,823	15,080
Cummulative effect of plan change		—	1,172
Service cost		264	279
Interest cost		712	690
Actuarial loss		1,212	198
Net benefits paid		(682)	(596)
Accumulated benefit obligation, end of year	$	18,329	16,823
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:			
Net actuarial gain	$	(486)	(1,702)
Prior service cost		1,156	1,474
	$	670	(228)

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2017 – $934,000; 2018 – $1,062,000; 2019 – $1,221,000; 2020 – $1,356,000; and 2021 – $1,447,000. An additional $8,395,000 is expected to be paid for the fiscal years 2022 through 2026.

Total employer and participant contributions are $682,000 and $121,000, respectively, for the year ended June 30, 2016. Total benefits paid for the year ended June 30, 2016 are $803,000. The employer and participant contributions for the year ending June 30, 2017 are expected to be $770,000 and $164,000, respectively, for a total of $934,000 in benefits paid. The expense discount rate for both of the years ended June 30, 2016 and 2015 was 3.5% and 4.5%, respectively. The measurement date was June 30, 2016.

(15) Commitments

The University's contractual commitments for capital expenditures totaled approximately $28,051,000 at June 30, 2016, and were comprised of the following (in thousands):

Colonnade renovation	$	10,243
Natatorium		8,992
Residence halls, sorority, and fraternity upgrades		6,165
Facilities maintenance and utilities		1,643
Various other projects		1,008
	$	28,051

(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% of total funds held in trust by others for the periods ending June 30, 2016 and 2015.

(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, 2016 consolidated financial statements through October 25, 2016, the date the consolidated financial statements were issued, and determined that there are no other items to disclose.