KPMG

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Financial Statements

June 30, 2018

(With Independent Auditors' Report Thereon)

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

June 30, 2018

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Management's Discussion and Analysis

Highlights from 2017-18

- University grants and scholarships were awarded to 50.4% of the undergraduates with the average institutional grant or scholarship award at $43,048 (84% of tuition and mandatory fees). In 2009, the corresponding figures were 45.8% of undergraduates with average institutional award of $28,374 (76% of tuition and mandatory fees).
- This past year, the University was able to offer 154 summer Lenfest Grants to faculty to pursue their research and scholarship, 6 full-year Lenfest Sabbaticals and 24 half-year sabbaticals, 101 Johnson Opportunity or Enhancement grants to students for research or other experiential opportunities and well over 200 additional grants to students for summer experiential, research or internship endeavors.
- Endowment (including funds held in trust by others) per Student increased to $722,992. At June 30, 2008, this value was $470,918. In other words, this increase in value of 55% has been captured over the past decade even as the endowment has distributed between 4% and 5% of its value annually.
- University completed fundraising for the new Duchossois Athletic and Recreation Center. With a total project budget of $47.7 million, construction of this important facility began in May 2018. Additionally, began the first phase of the renovation of Woods Creek Apartments, a $10 million project that will bring the facilities up to the standards of other residential spaces on campus.
- Total endowment assets and funds held in trust by others ended the fiscal year at a new high water mark of $1.603 billion.
- University received new gifts and pledges of $46.3 million with $18.8 million of the total for endowments and $13.4 million directed to capital projects.
- Annual Fund reached a new high for funds raised, $10.85 million, with undergraduate alumni participation at 50%.
- Net tuition revenues grew by 4.5% for the year with much stronger enrollment numbers at the Law School driving the majority of the increase.

A Plan Takes Shape

The 2017-18 year was a year of planning, as the University community coalesced in developing a new Strategic Plan. The plan which was adopted by the Board of Trustees in May 2017 is centered around the four "C"s: Community, Curriculum, Citizenship and Campus. The plan features objectives to become need-blind as an institution, expand access to curricular and co-curricular opportunities without regard for economic status and ensure that networks are in place to help every student reach their potential, expand the faculty to grow and enhance academic offerings, recruit a Director of Institutional History and build an Institutional History Museum, as well as to expand Huntley Hall and the Science Center, and create a new Admissions and Financial Aid home among other objectives. The plan is ambitious but attainable.

With this Strategic Plan, we can proceed within the comfort of a strong financial base that has the underpinnings in an endowment that ranks in the top 25 on a per student basis among all colleges and universities. This philanthropic support has substantially altered our revenue mix over the last decade. Since 2009, the percentage of revenues from philanthropic sources (endowment allocation, contributions and trusts held by others distributions) has surpassed that of net tuition. In 2008-09, net tuition accounted for 44% 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. It is also worth noting that net tuition revenues over this period grew by $7.5 million from $54.6 million in 2009 to $62.1 million this past year.

This transition from being primarily a tuition-driven institution to one in which philanthropy acts as the major revenue factor has also led us to give be even more mindful of balancing the risk-return characteristics of the investment portfolio to protect from downside risk while continuing to need exposure to the markets to maximize return. Securing reserves in strong markets to help steady operations when volatility plays a major role in the University's financial planning.

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 we can reach with financial aid. We have also 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. Faculty have benefitted from the strengthened financial resources with 154 receiving Summer Lenfest Grant support and 6 receiving Lenfest Sabbatical Funding to make possible year-long sabbaticals while 24 other faculty benefitted from half-year sabbatical leaves. It has also allowed us to provide funding for student conference travel to present papers on their research as well as the creation of the Advanced Research Cohort, a program that brings a dozen incoming first-year students to the campus in the summer for a five week program to expose them to research in the STEM fields.

Finally, it is worth noting that support of academic and student programs has also translated into improved facilities throughout the campus with nearly $200 million in new capital investment over the last decade. With the Duchossois Athletic and Recreation Center being completed over the next two years, we will complete the vision of the last strategic plan. The recently adopted strategic plan will lead to the securing of funding to allow for the following projects: the development of the Center for Academic Resources and Pedagogical Excellence, expansion and renovation of Huntley Hall, creation of a new Admissions and Financial Aid facility, renovation of Elrod Commons with the Center for Inclusiveness and Engagement, expansion and renovation of the Science Center, development of a new Institutional History Museum and a new Softball complex. These investments in facilities are critical in building a continued sustainable business model.

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

Assets

Washington and Lee University experienced a 2.8% increase in total assets over the past year. From $2.019 billion as of June 30, 2017, the University's assets climbed to $2.075 billion as of June 30, 2018. This continues a strong run of asset growth. Over the last decade, assets have increased by $593 million. The major asset categories for the University are presented in Figure 1.

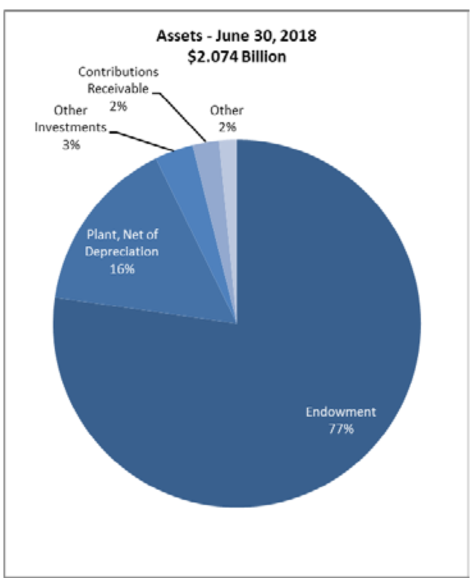

Figure 1

Endowment: Our endowment is comprised of two elements: gifts to the University held in the investment pool and Trusts Held by Others. The University's aggregate endowment grew to a new high-water mark of $1.603 billion at June 30, 2018 (See Fig. 2).

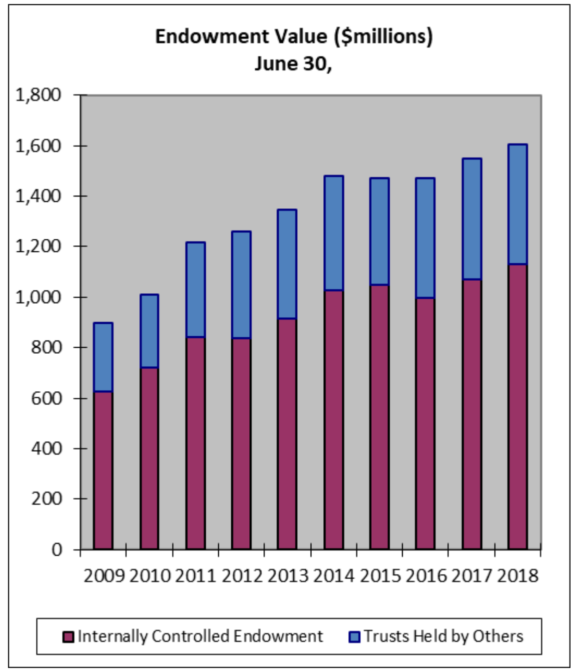

Figure 2

This is up from $1.547 billion as of June 30, 2017. Investment returns for the internally managed endowment were up with a +10.5% return. This positive return coupled with new gifts and additions to the endowment of $15.0 million more than offset the allocation from endowment for operating support of $50.6 million. The internally controlled endowment grew from $1.070 billion at June 30, 2017 to $1.129 billion as of June 30, 2018, an increase of $59.2 million. In contrast to the internal endowment, the market value of Trusts Held by Others decreased modestly by $3.20 million as stock of The Coca-Cola Company within the Lettie Pate Evans Restricted Fund Trust dropped by 2.2%. This decrease was partially offset by increases of other assets within the trust, as well as, investment gains across the other forty-one trusts held for the benefit of the University. In spite of the very modest decrease in market value, distributions from trusts increased by $749,000 in FY 2018 to $15.02 million.

Returns on a nominal basis for endowment funds with external managers well exceeded the University's long-term expected return (10.5% actual versus 7.5% planned). While not yet having adequate peer data to assess this result on a relative basis, the administration is pleased with the performance of the endowment. Over the longer term, the annual return for the ten-year period ended June 30, 2018 of 5.92% exceeds annualized spending from the endowment. If one of the goals of endowment management is to achieve strong long-term returns at lesser volatility, then we believe the Board of Trustees' Investment Committee has achieved this objective. With the most recent performance measurements provided by BNYMellon, W&L portfolio performance has exceeded the Global 60/40 benchmark on the 1, 3, 5 and 10-year basis with annualized volatility of the W&L portfolio at just 75% of the benchmark portfolio.

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

During the 2017-18 year, the University began construction of the new Duchossois Athletic and Recreation Center as well as the renovation of Woods Creek Apartments. Significant funding of the Duchossois Athletic and Recreation Center comes from fundraising with the balance funded through allocations from operations and debt. Woods Creek Apartments will be financed through new debt.

Moving forward, investment in facilities will continue to be structured to meet the University's strategic objectives. The Strategic Plan that was approved in May 2018 includes twelve major capital projects to be completed over the next decade. These include expansion and renovation of Huntley Hall, a new Admissions and Financial Aid Center, a Museum for Institutional History, the expansion and renovation of the Science Center complex, the development of the Center for Academic Resources and Pedagogical Excellence and a Softball Field Complex among others. Funding for these projects will be through a combination of fundraising, operating allocations and new debt with fundraising being the most significant component.

Contributions Receivable: Many significant gifts to the University are structured to be paid in over a period of time (typically no more than five years). These commitments become Contributions Receivable from an accounting perspective. Often during a campaign period, the University will see this asset grow as major contributions and commitments are made. Following a campaign, it is often the case that this asset declines from year-to-year as pledge payments are made and there is not as significant gift flow as during the campaign period. This is the case for W&L. As of June 30, 2018, contributions receivable were valued at $48.3 million. This is down from $53.2 million at June 30, 2017, reflecting the payments made on pledges from the most recent campaign while also accounting for new pledge commitments received over the succeeding three years.

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 $51.0 million at the end of this most recent fiscal year, down slightly from $51.3 million at the end of fiscal year 2017. The decrease reflects the combination of distributions to beneficiaries and maturities of certain trusts partially offset by new agreements and investment return.

Liabilities

On the other side of the ledger, the University has liabilities totaling $259.8 million. Three types of liabilities comprise 91% of this total: debt, future annuity payments and postretirement benefits. (See Fig. 3)

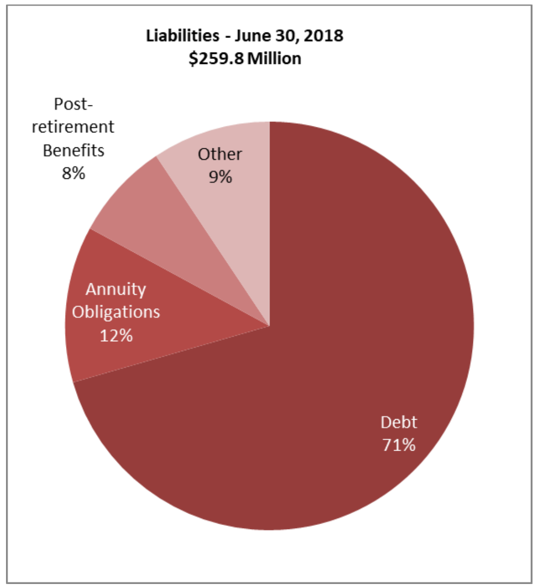

Figure 3

Debt: Washington and Lee University's largest liability is long-term debt that has been incurred over the years to support capital building projects. With the last issuance in 2015, debt at the University climbed to $201 million. In the three years since, principal repayment and amortization of premiums has reduced the long-term debt by $14.9 million. Over the past year, the University made $4.26 million of payments toward principal and $8.37 million in interest payments. Total debt now stands at $186.3 million and is composed of six 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 at June 30, 2018, 85% is fixed rate and 15% is variable rate debt. Maturities extend to 2043 with interest rates ranging for fixed rate debt from 2.25% to 5.75%. It is worth noting that the 1998 and 2001 VCBA Notes, totaling $90.2 million are noncallable.

It should also be noted that in August 2018, the University issued additional debt in two series. Series A included $22.5 million of new money debt to fund the renovations to Woods Creek Apartments and partially fund the Duchossois Athletic and Recreation Center. Series A also refunded the 2010 Lexington IDA note moving it from variable rate to fixed rate debt. The Series B debt refunded the 2015B VCBA variable rate demand bonds with a variable rate bank loan from Century Bank. The amortization structure of the principal for both refundings remained the same as the original instruments.

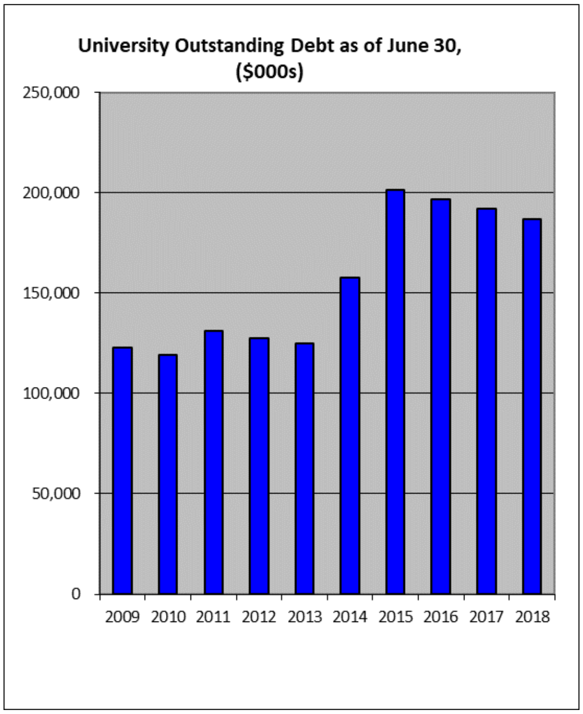

Figure 4

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.

As identified, Debt has played a role in our ability to invest in facilities; however, we want to ensure that debt is used responsibly and does not overburden the budget. As such we have had a long-standing debt policy that identifies a prudent range of debt for the University. With total debt service (principal plus interest payments) at 7.5% of operating expenses, the University falls comfortably within the institutional debt service parameter range of 4% to 10% of operations.

Debt will certainly play a role with the recently approved strategic plan. In fact, initial planning identifies the likely need for approximately $80 million of new debt to support the capital investments envisioned in the plan over the next decade (we do not anticipate aggregate total debt to exceed $250 million over this horizon). As we look at future debt issues, we will continue to remain mindful of the limits created through our debt policy and current ratings from S&P and Moody's.

Future Annuity Payments: The split interest instruments mentioned above create a liability based upon expected future payments to the donor. As of June 30, 2018, this liability was recorded at $32.2 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 $20.1 million, up from $19.6 million at June 30, 2017. This benefit is paid expensed annually through operations and the plan is not funded. 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 further 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 (97 such endowments today) and the development of reserves over the years. The University saw this class of net assets increase by $17.4 million to $375.4 million at June 30, 2018.

Temporarily Restricted Net Assets: These funds are fully expendable but restricted by a purpose, timeframe for use or through accumulated gains of permanently restricted endowments. Examples are gift funds restricted for support of student financial aid, deferred giving arrangements under which the University has an obligation to make payments to beneficiaries before receiving the remainder value to meet the donor's intent and unspent endowment allocations intended for programmatic purposes. These net assets also increased significantly this year from $420.4 million to $455.3 million as of June 30, 2018, largely a result of the strong investment return environment.

Permanently Restricted Net Assets: These funds are given by a donor with the express condition that the original value of the gift is not to 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 twenty-nine outside trusts and 1,280 donor-restricted endowments. The value of this net asset component increased by $7.3 million to $984.2 million. Table 1 summarizes the University's Statement of Financial Position.

Table 1

Summary Statement of Financial Position June 30, 2018 ($000s)		
Assets:		
Cash and Cash Equivalents	$	15,662
Accounts and Notes Receivable		12,563
Contributions Receivable, net		48,251
Inventories		1,672
Investments		1,199,401
Funds Held in Trust by Others		474,098
Assets Restricted to Investment in Plant		2,477
Land, Buildings and Equipment, net		320,591
Total Assets	$	2,074,715
Liabilities:		
Accounts and Other Payables	$	12,035
Accrued Compensation		4,252
Student and Other Deposits		994
Deferred Revenue		1,478
U.S. Government Grants Refundable		1,148
Annuity Obligations		32,170
Asset Retirement Obligations		687
Capital Lease Obligations		706
Long-term Debt		186,301
Postretirement Benefit Obligations		20,050
Total Liabilities		259,821
Net Assets:		
Unrestricted		375,409
Temporarily Restricted		455,262
Permanently Restricted		984,223
Total Net Assets		1,814,894
Total Liabilities and Net Assets	$	2,074,715

Operating Results

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.

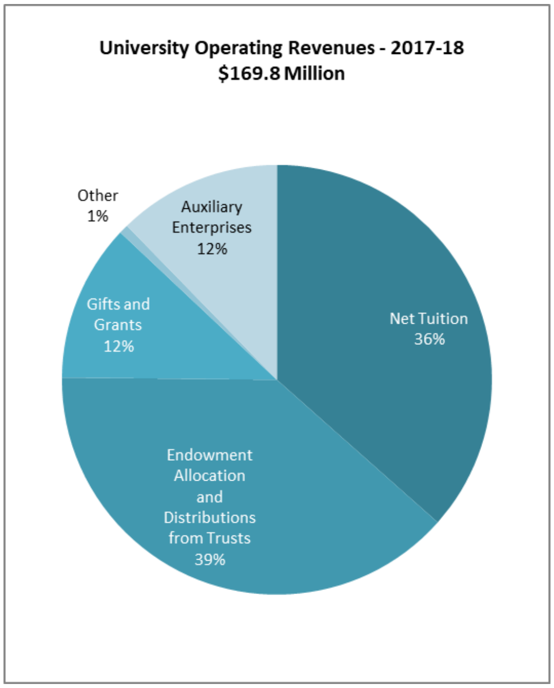

Figure 5

Tuition remains a vital source of operational support; however, it is important to understand the context around costs, stated tuition and net tuition. In 2017-18, the University incurred a cost on average of $63,386 per student for educational and student services. The stated tuition and mandatory fees rate was $50,170 and the average tuition and fees paid by families after financial aid was just $26,970. Every student received a subsidy toward their education of at least $13,216, 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 and will continue to be an area of focus as the University works to expand accessibility to all qualified applicants without regard to socio-economic status.

In 2017-18, net tuition revenues increased by 4.5% to $62.1 million. This result occurred as total enrollment grew by 4.8% with the Law School's enrollment increasing by nearly 20% with improvements in its ranking. Financial Aid continues to be a significant priority for the University as one of the new Strategic Plan goals is to become need-blind in undergraduate admissions practices in the coming years. This may result in lower growth in net tuition revenues but greater growth in endowment as a funding source of the University's operations. We believe this will allow 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, 2018 ($000s)	
Revenues:	
Gross Tuition	$ 108,267
Less student financial aid	(46,197)
Net Tuition	62,070
Endowment Return Allocated to Operations	50,568
Income from Funds Held in Trust by Others	15,017
Contributions and Grants	20,116
Auxiliary Enterprises (net of $3,076 of aid)	20,861
Other	1,186
Total	**169,818**
Expenses:	
Instructional	75,770
Academic Support	20,044
Student Services	14,965
Institutional Support	21,404
Financial Aid	4,101
Auxiliary Enterprises	27,436
Other	2,846
Total	**166,566**
Operating Surplus	3,252
Increase in Net Assets from Non-Operating Activities	56,429
Change in Net Assets	**$ 59,681**

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 ($46.20 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $3.08 million. Finally, within the Expenses section, there is a line item for Financial Aid that totals $4.10 million (this amount represents awards that exceed tuition, room and board). On a combined basis, student financial aid awarded by the University in 2017-18 was $53.37 million reaching 50% 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 38.6% of the operating revenues in 2017-18, at $65.6 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 2017-18, the University followed its normal spending formula of increasing endowment spending by inflation plus one percent. This yielded a payout rate of 4.69%. Law School endowments retained the supplemental increased payout adopted by the Board of Trustees for a third year; although, the payout for the Law School was able to be reduced from 7.5% payout in 2016-17 to 6.0% in 2017-18.

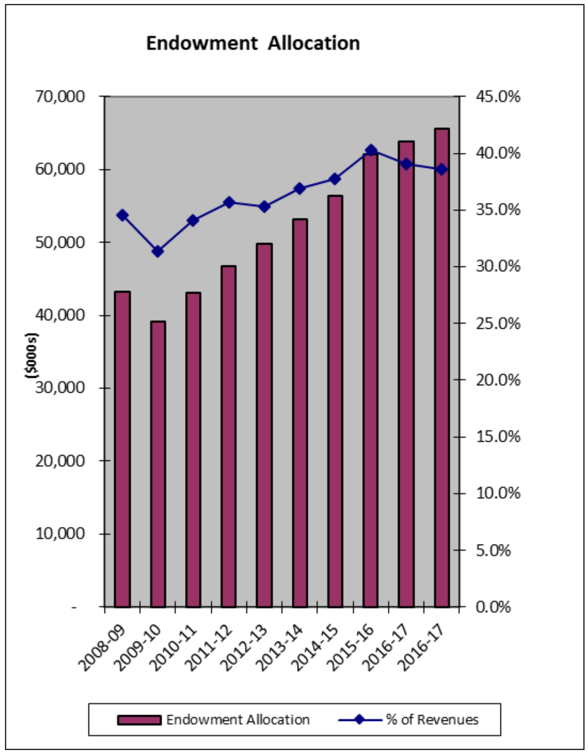

Figure 6

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 2017-18, the Annual Fund exceeded $10.85 million, a new high water mark for the fund. In addition, the University maintained a high undergraduate alumni participation rate with 50% making gifts. These unrestricted gifts underwrite all aspects of University life. In the aggregate, Washington and Lee received $20.1 million in expendable contributions and grants in 2017-18 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 $428 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 fundraising. This latter figure was recently affirmed by following the methodology outlined by the American Council of Trustees and Alumni report entitled *How Much is Too Much? Controlling Administrative Costs through Effective Oversight*. In that report, the researchers used a methodology of dividing Institutional Support expenditures by the total of Instruction and Academic Support expenditures. This method led to a ratio for a way to compare schools as well as a way to look at the issue from a trend perspective at the institution. For fiscal year 2017 (the most recent with comparative information), Washington and Lee posted a ratio of

0.209. This was the lowest among the Top 25 liberal arts institutions as defined by U.S. News where the mean of the group was 0.327.

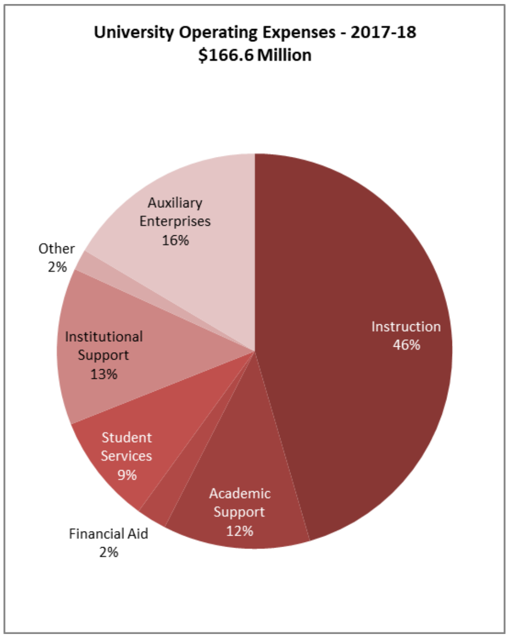

Figure 7

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 (59.5% versus 51.5%). However, the University's aggregate expenses per student fall below the average expense per student of the peers by $8,500.

Results from Operations reflect an Unrestricted Operating surplus of $2.415 million versus an Unrestricted Operating surplus of $2.97 million in 2017. In aggregate when looking at both unrestricted and temporarily restricted operations, the surplus increases to $3.25 million reflecting an increase in temporarily restricted assets in support of future operations. In budgeting and evaluating our operating results, the University uses a modified cash flow approach rather than GAAP reporting. This excludes a depreciation expense of $17.05 million but does include principal payments on debt and the annual allocation to capital projects. Additionally, the Board of Trustees approved a change in the University's Reserves Policy in 2014 that has led to an increase in the annual allocation to Capital Reserves, the combination of which should be able to substitute for Depreciation budgeting. This allocation is expected to grow over time providing a long-term best practice solution for construction of the operating budget. 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 in which we were able to continue to enjoy the fruits from the success of the last Strategic Plan, including the initiation of the final major component of that plan, the Duchossois Athletic and Recreation Center. Additionally, it was a year in which the community was asked to aspire with the formulation of a new Strategic Plan that is grounded within the culture of financial discipline but will also continue to build the financial strength of the University. Strong enrollments, favorable investment returns and continued philanthropic support of alumni, parents and friends yielded very positive financial outcomes while still being able to invest in the core mission. In short, it was a year that continued to bolster our ability to navigate through the ebbs and flows of the industry.

As we look to the next Strategic Plan, we do so while being mindful of what has worked so well over the years: investing meaningfully in the future of our faculty and students. This core objective has led to an institution that understands its role and place in higher education 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, while being diligent to ensure an even brighter future.

KPMG LLP
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Richmond, VA 23219-4023

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, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Washington and Lee University and its affiliate as of June 30, 2018, 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.

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Report on Summarized Comparative Information

We have previously audited the University's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 19, 2018
Richmond, Virginia

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Statement of Financial Position

June 30, 2018
(with comparative information as of June 30, 2017)

(In thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	15,662	5,557
Accounts and other receivables		6,472	7,736
Notes receivable, net		6,091	6,343
Contributions receivable, net		48,251	53,221
Inventories		1,672	1,351
Investments		1,199,401	1,141,133
Funds held in trust by others		474,098	477,293
Assets restricted to investment in land, buildings, and equipment		2,477	1,504
Land, buildings, and equipment, net		320,591	324,798
Total assets	$	2,074,715	2,018,936
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	12,035	10,762
Accrued compensation		4,252	3,804
Student and other deposits		994	770
Deferred revenue		1,478	1,752
U.S. government grants refundable		1,148	1,367
Split interest agreement obligations		32,170	32,575
Asset retirement obligations		687	1,005
Capital lease obligations		706	1,247
Long-term debt		186,301	190,843
Postretirement benefit obligation		20,050	19,598
Total liabilities		259,821	263,723
Commitments and contingencies			
Net assets:			
Unrestricted		375,409	357,972
Temporarily restricted		455,262	420,365
Permanently restricted		984,223	976,876
Total net assets		1,814,894	1,755,213
Total liabilities and net assets	$	2,074,715	2,018,936

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Statement of Activities

Year ended June 30, 2018
(with summarized comparative information for the year ended June 30, 2017)

(In thousands)

	2018 Unrestricted	2018 Temporarily restricted	2018 Permanently restricted	2018 Total	2017 Total
Operating revenues and gains:					
Tuition and fees	$ 108,267	—	—	108,267	100,913
Less student financial aid	(46,197)	—	—	(46,197)	(41,541)
Net tuition and fees	62,070	—	—	62,070	59,372
Endowment return allocated to operations	43,047	7,521	—	50,568	49,572
Other investment income	628	150	—	778	628
Distributions from funds held in trust by others	14,970	47	—	15,017	14,268
Contributions	12,817	6,291	—	19,108	17,845
Auxiliary enterprises (net of $3,076 in 2018 and $2,407 in 2017 of student financial aid)	20,861	—	—	20,861	20,077
Governmental and other grants	—	1,008	—	1,008	1,073
Other	322	86	—	408	677
Net assets released from restrictions	14,266	(14,266)	—	—	—
Total operating revenues and gains	168,981	837	—	169,818	163,512
Operating expenses:					
Instruction	75,770	—	—	75,770	73,746
Research	1,899	—	—	1,899	2,114
Public service	947	—	—	947	1,056
Academic support	20,044	—	—	20,044	18,824
Financial aid	4,101	—	—	4,101	4,363
Student services	14,965	—	—	14,965	13,971
Institutional support	21,404	—	—	21,404	19,968
Auxiliary enterprises	27,436	—	—	27,436	26,877
Total operating expenses	166,566	—	—	166,566	160,919
Change in net assets from operating activities	2,415	837	—	3,252	2,593
Nonoperating activities:					
Investment return, net of amount allocated to operations	10,001	35,608	3,158	48,767	67,796
Change in value of funds held in trust by others	—	16	(2,994)	(2,978)	191
Split interest agreements, net	(24)	(1,732)	(2,660)	(4,416)	(4,854)
Contributions	—	6,777	9,274	16,051	14,002
Net assets released for fixed asset acquisitions	6,038	(6,038)	—	—	—
Postretirement charge other than benefit cost	685	—	—	685	(832)
Other, net	(1,678)	(571)	569	(1,680)	132
Total nonoperating activities	15,022	34,060	7,347	56,429	76,435
Change in net assets	17,437	34,897	7,347	59,681	79,028
Net assets:					
Beginning of year	357,972	420,365	976,876	1,755,213	1,676,185
End of year	$ 375,409	455,262	984,223	1,814,894	1,755,213

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Statement of Cash Flows

Year ended June 30, 2018
(with comparative information for the year ended June 30, 2017)

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	59,681	79,028
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Net realized and unrealized gains on investments		(93,322)	(111,570)
Depreciation and amortization		17,049	16,151
Loss on disposal of fixed assets		1,361	—
Contributions restricted for long-term investment in endowment and plant		(26,396)	(22,542)
Interest and dividends restricted for long-term investment		(326)	(559)
Changes in operating assets and liabilities:			
Accounts and other receivables, net		1,517	(2,108)
Contributions receivable, net		4,971	4,908
Inventories		(324)	27
Funds held in trust by others		3,195	(191)
Accounts payable and other accrued liabilities		2,334	(1,878)
Student and other deposits		224	182
Deferred revenue		(274)	(369)
U.S. government grants refundable		(218)	(659)
Split interest agreement obligations		4,374	4,058
Postretirement benefit obligations		452	1,269
Net cash and cash equivalents used in operating activities		(25,702)	(34,253)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(15,384)	(37,087)
Purchases of investments restricted to land, buildings, and equipment		(13,786)	(9,503)
Proceeds from sale of investments		267,903	499,232
Purchases of investments		(219,906)	(440,208)
Net cash and cash equivalents provided by investing activities		18,827	12,434
Cash flows from financing activities:			
Principal payments on capital lease obligations		(576)	(583)
Interest and dividends restricted for long-term investment		326	559
Proceeds from contributions restricted for long-term investment in endowment and plant		26,411	21,874
Payments on split interest agreements		(4,923)	(3,781)
Principal payments on long-term debt		(4,258)	(4,123)
Net cash and cash equivalents provided by financing activities		16,980	13,946
Net increase (decrease) in cash and cash equivalents		10,105	(7,873)
Cash and cash equivalents:			
Beginning of year		5,557	13,430
End of year	$	15,662	5,557
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	8,368	8,436

Noncash investing and financing activities, in thousands:

At June 30, 2018 and 2017, $506 and $1,119, respectively, of fixed asset purchases were included in accounts payable and other payables.

At June 30, 2018 and 2017, the University incurred capital lease obligations of $35 and $536, 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 390 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. Those various leasing arrangements were satisfied and terminated March 15, 2018.

(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, 2018 is presented with certain summarized comparative information for the year ended June 30, 2017 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, 2017 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 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. The various net asset values, which are used as a practical expedient for fair 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.

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 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 value, 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 nonoperating 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.

On December 22, 2017, Public Law 115-97, the Tax Cuts and Jobs Act was enacted. This law included several changes relevant to tax-exempt organizations. Management is currently in the process of evaluating the new law and the impact it will have on the University.

(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 which defers the effective date of ASU 2014-09, *Revenue from Contract with Customers (Topic 606)*, as amended, 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 2017. For Washington and Lee University the requirement will be applied beginning with the 2018-2019 fiscal year. ASU 2014-09, as amended, 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, as amended, will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will replace most existing lease guidance in U.S. generally accepted accounting principles when it becomes effective for the University in the 2019-2020 fiscal year. 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 the University in fiscal year 2018-2019.

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 the University in fiscal year 2019-2020. The University is currently assessing the impact that ASU 2016-15 will have on its consolidated financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in ASU 2016-18 provide guidance on restricted cash presentation in the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. Early adoption is permitted. The University is currently evaluating the impact this guidance 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, 2018 and 2017 (in thousands):

	Maturity	Interest rates		2018	2017
Student financial aid:					
Federally funded aid, net of allowance for doubtful accounts of $280 and $264, respectively	up to 10 years	3%–5%	$	958	1,224
University funded aid, net of allowance for doubtful accounts of $506 and $468, respectively	up to 10 years	3%–8%		3,439	3,582
Other notes:					
Note receivable from sale of property	10/31/2020	5%		1,501	1,501
Miscellaneous notes	various	various		193	36
			$	6,091	6,343

(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, 2018 and 2017 (in thousands):

		2018	2017
Less than one year	$	18,974	23,689
One year to five years		29,835	28,271
Over five years		1,878	3,432
Total contributions receivable, gross		50,687	55,392
Less allowance for uncollectible contributions		(490)	(541)
Total contributions receivable, net of allowance		50,197	54,851
Discount (rates ranging from 0.79% to 4.89%)		(1,946)	(1,630)
Total	$	48,251	53,221

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2018 and 2017 consist of the following (in thousands):

		2018	2017
Land	$	6,124	6,124
Land improvements		22,502	19,737
Buildings and improvements		419,296	420,967
Equipment		61,448	62,734
Art properties		4,604	4,382
		513,974	513,944
Less accumulated depreciation and amortization		(202,401)	(191,810)
		311,573	322,134
Construction in progress		9,018	2,664
Total	$	320,591	324,798

(Continued)

(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, 2018 and 2017 for each class of net asset is as follows (in thousands):

		Investment pool	Annuity and life income	Other	Total
2018:					
Net assets:					
Unrestricted	$	258,418	—	15,412	273,830
Temporarily restricted		378,413	22,597	—	401,010
Permanently restricted		496,126	28,435	—	524,561
Investments as of June 30, 2018	$	1,132,957	51,032	15,412	1,199,401

		Investment pool	Annuity and life income	Other	Total
2017:					
Net assets:					
Unrestricted	$	247,173	—	16,300	263,473
Temporarily restricted		344,322	22,942	—	367,264
Permanently restricted		482,079	28,317	—	510,396
Investments as of June 30, 2017	$	1,073,574	51,259	16,300	1,141,133

(Continued)

Investments are comprised of the following at June 30, 2018 and 2017 (in thousands):

		2018	2017
Short-term investments	$	13,199	29,979
Equities		159,441	186,166
Fixed income		66,346	60,745
Real assets		43,430	24,496
Hedge funds		3,637	3,782
Mortgage loans to faculty and staff		50,983	50,527
Multi-Asset Class (see below) *		792,537	756,163
Private equity/venture capital		69,828	29,275
Total	$	1,199,401	1,141,133

* 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 140 investment managers.

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

		2018	2017
Interest and dividend income	$	6,790	6,426
Net appreciation in fair value of investments, including investment expenses of $7,503 and $7,184 in 2018 and 2017, respectively		93,323	111,570
Total investment return		100,113	117,996
Less investment return available under spending policy, including unrestricted amounts of $43,047 and $42,226 in 2018 and 2017, respectively, and temporarily restricted amounts of $7,521 and $7,346 in 2018 and 2017, respectively		(51,346)	(50,200)
Investment return in excess of amount available under spending policy	$	48,767	67,796

The University maintains a statement of investment policies and objectives, which is approved by the Investment Committee of 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, 2018, approximately 77% 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 140 individual managers across 6 asset classes and over 25 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, 2018 and 2017 was allocated across the following asset classes as follows:

	2018	2017
Equity	35 %	35 %
Real estate	12	12
Private equity	20	20
Natural resources	6	8
Absolute return	14	18
Fixed income	7	7
Cash	6	—

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 BNYMellon 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, 2018, as well as liquidity and funding commitments for those investments (in thousands):

		Fair value	Unfunded commitments	Redemption frequency (if currently available)	Redemption notice period
Real assets	$	38,229	9,116	*	*
Multi-Asset Class		792,537	—	Annual	1 year
Private equity/venture capital		69,828	83,533	*	*

* These are primarily limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take 1-5 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.

- **Split interest agreement obligations:** The University has estimated the net realizable value of split interest agreement obligations, and has concluded the carrying amounts approximate fair value. The discount rates used in calculation of split interest agreements ranged from 0.004% to 21.95% and 0.06% to 22.54% at June 30, 2018 and 2017, respectively.
- **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. 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.

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, 2018 (in thousands):

	June 30, 2018	Fair value measurements at reporting date using Level 1	Level 2	Level 3	NAV[1]
Assets:					
Investments:					
Short-term investments	$ 13,199	12,505	694	—	—
Equities	159,441	133,388	—	26,053	—
Fixed income	66,346	52,724	13,253	369	—
Real assets	43,430	926	4,275	—	38,229
Hedge funds	3,637	3,637	—	—	—
Mortgage loans to staff and fraternities	50,983	—	50,983	—	—
Multi-Asset Class	792,537	—	—	—	792,537
Private equity/venture capital	69,828	—	—	—	69,828
Total investments	1,199,401	203,180	69,205	26,422	900,594
Funds held in trust by others	474,098	—	—	474,098	—
Total assets	$ 1,673,499	203,180	69,205	500,520	900,594
Liabilities:					
Interest rate swaps	$ —	—	—	—	—

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 statement of financial position.

There were no significant transfers between investment levels for the year ended June 30, 2018.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2017 (in thousands):

	June 30, 2017	Fair value measurements at reporting date using: Level 1	Level 2	Level 3	NAV[1]
Assets:					
Investments:					
Short-term investments	$ 29,979	20,642	9,337	—	—
Equities	186,166	152,887	—	33,279	—
Fixed income	60,745	60,357	19	369	—
Real assets	24,496	896	2,949	—	20,651
Hedge funds	3,782	3,782	—	—	—
Mortgage loans to staff and fraternities	50,527	—	50,527	—	—
Multi-Asset Class	756,163	—	—	—	756,163
Private equity/venture capital	29,275	—	—	—	29,275
Total investments	1,141,133	238,564	62,832	33,648	806,089
Funds held in trust by others	477,293	—	—	477,293	—
Total assets	$ 1,618,426	238,564	62,832	510,941	806,089
Liabilities:					
Interest rate swaps	$ 4	—	4	—	—

[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 statement of financial position.

There were no significant transfers between investment levels for the year ended June 30, 2017.

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, 2018 and 2017 (in thousands):

		Investments	Funds held in trust by others	Total
Ending balance at June 30, 2016	$	389	477,102	477,491
Net realized and unrealized gains		5,554	14,501	20,055
Net maturities		(8,000)	—	(8,000)
Contributions		35,705	—	35,705
Distributions		—	(14,310)	(14,310)
Ending balance at June 30, 2017		33,648	477,293	510,941
Net realized and unrealized gains		4,303	12,096	16,399
Net maturities		(11,500)	(332)	(11,832)
Contributions		—	116	116
Distributions		(29)	(15,075)	(15,104)
Ending balance at June 30, 2018	$	26,422	474,098	500,520

(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, 2018, the University holds 1,377 endowment funds, of which 1,280 are true endowments (restricted by the donor) and 97 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, 2018 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(21)	375,080	496,126	871,185
Board-designated endowment funds		257,831	—	—	257,831
Total endowed net assets	$	257,810	375,080	496,126	1,129,016

Endowment net assets consist of the following at June 30, 2017 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(91)	341,090	482,079	823,078
Board-designated endowment funds		246,764	—	—	246,764
Total endowed net assets	$	246,673	341,090	482,079	1,069,842

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	231,945	295,261	468,177	995,383
Investment return:					
Investment income		812	2,497	—	3,309
Net appreciation		23,058	82,150	—	105,208
Contributions and pledge payments		1,503	109	13,902	15,514
Appropriation for expenditure		(10,645)	(38,927)	—	(49,572)
Endowment net assets, June 30, 2017		246,673	341,090	482,079	1,069,842
Investment return:					
Investment income		886	2,957	—	3,843
Net appreciation		19,954	70,707	—	90,661
Contributions and pledge payments		1,113	78	14,047	15,238
Appropriation for expenditure		(10,816)	(39,752)	—	(50,568)
Endowment net assets, June 30, 2018	$	257,810	375,080	496,126	1,129,016

(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 $21,000 and $91,000 as of June 30, 2018 and 2017, 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 4.69% and 4.83% for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, the fair value of the University's interest was reported by the trustees as $432,810,000 and $436,043,000, respectively. During the years ended June 30, 2018 and 2017, the University received distributions of $14,260,000 and $13,419,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2018 and 2017, the University maintained an interest in 40 other trusts with fair values of the University's interest, as reported by the trustees of approximately $41,288,000 and $41,250,000, respectively, and received distributions for the years ended June 30, 2018 and 2017 of $757,000 and $850,000, respectively.

(10) Long-Term Debt and Derivative Instruments

Long-term debt consists of the following obligations at June 30, 2018 and 2017 (in thousands):

	Final maturity	Interest rates	2018	2017
Virginia College Building Authority (VCBA):				
1998 Note, includes unamortized premium of $739 and $814, and unamortized debt issuance cost of $222 and $240, respectively (A)	January 2031	5.03%–5.05%	$ 52,722	52,779
2001 Note, includes unamortized premium of $1,507 and $1,607, and unamortized debt issuance cost of $154 and $164, respectively (B)	January 2034	5.00%–5.75%	35,463	38,678
2015A Note, includes unamortized premium of $4,341 and $4,503 and unamortized debt issuance cost of $276 and $286, respectively (C)	January 2040	2.25%–5.00%	34,650	35,542
2015B Note, includes unamortized debt issuance cost of $129 and $134, respectively (D)	January 2043	Variable	14,871	14,866
Industrial Development Authority of the City of Lexington, Virginia (Lexington Authority):				
2003 Note, includes unamortized debt issuance cost of $1 for 2017(E)	April 2018	Variable	—	197
2010 Note, includes unamortized debt issuance cost of $126 and $136 (F)	January 2035	Variable	13,594	13,779
2013 Note, includes unamortized premium of $291 and $302, and unamortized debt issuance cost of $250 and $260, respectively (G)	January 2043	4.88%	35,001	35,002
			$ 186,301	190,843

(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) In April 2015, the VCBA issued bonds in the amount of $32,040,000 and known as Series 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.

(D) In April 2015, the VCBA issued bonds in the amount of $15,000,000 and known as Series 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, 2018 ranged from 0.77% to 1.78%.

(E) 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, 2018 ranged from 1.23% to 1.66%.

(F) 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, 2018 ranged from 0.77% to 1.78%.

(G) 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: 2019 – $4,270,000; 2020 – $4,495,000; 2021 – $5,095,000; 2022 – $5,265,000; 2023 – $5,515,000; and thereafter –$155,940,000.

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, 2019 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, 2018, 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 interest rate swap agreement matured in the year ended June 30, 2018. The fair value of the University's interest rate swaps at June 30, 2017, was a liability of $4,000.

(11) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes (in thousands):

		2018	2017
Financial aid	$	10,875	9,718
Faculty support		1,798	1,826
Program support		21,902	21,744
Buildings and equipment		3,973	2,978
Contributions receivable, for program support		32,625	34,050
Planned giving arrangements		10,001	9,982
Other		2,803	2,658
Accumulated appreciation on donor-restricted endowment funds, principally for program support and financial aid		371,285	337,409
Total	$	455,262	420,365

(b) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 and 2017 are comprised of the following (in thousands):

		2018	2017
Purpose restricted:			
Financial aid	$	285,054	278,260
Faculty support		47,248	46,791
Program support		606,815	605,916
Library and collections support		5,149	4,731
Buildings and equipment		7,803	5,629
Other		6,806	6,795
		958,875	948,122
Time and purpose restricted:			
Contributions receivable		16,365	19,996
Planned giving arrangements		8,983	8,758
		25,348	28,754
Total	$	984,223	976,876

(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, 2018 were as follows (in thousands):

Financial aid	$	2,509
Program support		4,271
Other		7,486
		14,266
Buildings and equipment		6,038
Total	$	20,304

(12) Expenses

Expenses for the years ended June 30, 2018 and 2017 were incurred for the following (in thousands):

		2018	2017
Salaries, wages and benefits	$	101,846	96,634
Supplies and services		34,601	34,718
Depreciation and amortization of buildings and equipment		17,211	16,569
Costs of sales, auxiliary enterprises		5,027	5,233
Interest		7,881	7,765
Total	$	166,566	160,919

(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 $6,298,000 and $6,148,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 totaled $120,000 and $110,000, 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, 2018 and 2017 were as follows (in thousands):

		2018	2017
Service cost (benefits attributed to employee service during the year)	$	539	385
Interest cost on accumulated postretirement benefit obligation		788	641
Amortization of prior service cost		584	318
Net periodic postretirement benefit cost	$	1,911	1,344

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, 2018 and 2017 was 4.0%. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 7.5% in 2018, 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, 2018 and 2017 (in thousands):

		2018	2017
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	19,597	18,329
Cumulative effect of plan change		—	1,867
Service cost		539	385
Interest cost		788	641
Actuarial loss(gain)		21	(837)
Net benefits paid		(895)	(787)
Accumulated benefit obligation, end of year	$	20,050	19,598
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:			
Net actuarial gain	$	(1,304)	(1,203)
Prior service cost		2,121	2,705
	$	817	1,502

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2019 – $1,136,000; 2020 – $1,339,000; 2021 – $1,469,000; 2022 – $1,590,000; and 2023 – $1,704,000. An additional $9,446,000 is expected to be paid for the fiscal years 2024 through 2028.

Total employer and participant contributions are $895,000 and $67,000, respectively, for the year ended June 30, 2018. Total benefits paid for the year ended June 30, 2018 are $962,000. The employer and participant contributions for the year ending June 30, 2019 are expected to be $1,045,000 and $91,000, respectively, for a total of $1,136,000 in benefits paid. The expense discount rate for both of the years ended June 30, 2018 and 2017 was 4.0%. The measurement date was June 30, 2018.

(15) Commitments

The University's contractual commitments for capital expenditures totaled approximately $48,167,000 at June 30, 2018, and were comprised of the following (in thousands):

Athletic facilities upgrades	$	41,040
Residence hall upgrades		6,196
Facilities maintenance and utilities		931
	$	48,167

(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 77% and 81% of total funds held in trust by others for the periods ended June 30, 2018 and 2017, respectively.

(17) Contingencies

The University receives revenues under U.S. Government grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs, which are subject to audit, and are reported to the U.S. Government. Recovery of indirect costs is based on predetermined rates negotiated with the government. The University is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the consolidated financial statements.

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

(18) Subsequent Events

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2018 consolidated financial statements through October 19, 2018, the date the consolidated financial statements were issued.

In July 2018, the Lexington Authority issued revenue bonds in the amount not in excess of $51,250,000 known as Series 2018 Bonds, to assist the University in (1) financing capital improvements, renovations or replacements, all located on the University's campus in the City of Lexington, Virginia, (2) refunding all or a portion of the Series 2015B Bonds, (3) refunding all or a portion of the Series 2010 Bonds; and (4) financing costs of issuance, funded interest, if any, and reserves, if any, with respect to the Bonds.