KPMG

THE WASHINGTON AND LEE UNIVERSITY AND ITS AFFILIATE

Consolidated Financial Statements

June 30, 2019

(With Independent Auditors' Report Thereon)

**THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE**

June 30, 2019

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Management's Discussion and Analysis

Highlights from 2018-19

- University grants and scholarships were awarded to 53.0% of the undergraduates with the average institutional grant or scholarship award at $46,962 (90% 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 162 summer Lenfest Grants to faculty to pursue their research and scholarship, 14 full-year Lenfest Sabbaticals and 25 half-year sabbaticals, 125 Johnson Opportunity or Enhancement grants to students for research or other experiential opportunities and 91 additional grants to participate as Summer Research Scholars.
- Endowment (including Trusts Held by Others) per Student increased to $754,980. At June 30, 2009, this value was $416,693. In other words, this increase in value of 81% has been captured over the past decade even as the endowment has distributed between 4% and 5% of its value annually.
- The University made significant progress on the new Duchossois Athletic and Recreation Center which is expected to be completed during the summer of 2020. The project continues to track on schedule and within the budget. In addition, over the summer of 2019, the University finished the Woods Creek Apartments renovations as well as phase 1 of the Center for Academic Resources and Pedagogical Excellence (CARPE) project and a new outdoor classroom. Total endowment assets and funds held in trust by others ended the fiscal year at a new high water mark of $1.676 billion with both hitting all-time highs at $1.142 billion and $534 million, respectively.
- University received new gifts and pledges of $31.5 million with $16.3 million of the total committed to endowments.
- Annual Fund achieved the second highest total in its history at $10.71 million while holding close to 50% undergraduate participation (48.4%).

On the Eve of Investment

With the adoption of a new Strategic Plan in May 2018, the 2018-19 year focused significantly on strategies for implementation and timing of new investments. Much like the last Strategic Plan, the University has committed to early implementation of a number of initiatives ahead of the fundraising support that will underwrite these investments over the long-term. In terms of setting priorities for those investments, the University has focused on those that enhance the student experience.
Against these planning efforts, the University experienced a set of headwinds that negatively impacted financial performance in 2018-19 (more on those in the Operating Results section below). Nevertheless, it is because of the financial strength of the institution that we feel comfortable in proceeding with strategic plan initiatives. These investments will continue to grow and enhance the University and will encourage students to succeed and thrive.

It is also worth pointing out that we can recall the challenges in the early stages of the last strategic plan where initiatives were begun and continued almost concurrently with even greater headwinds created by the Great Recession. We stand today with greater resources and greater opportunities than ever before and with a firm belief that the University will advance over the next decade to a place that is both stronger financially and even better at providing students an incredible array of opportunities both in and out of the classroom. This provides context for the environment as you review the financial statements laid out in the audited report and notes.

Assets

Washington and Lee University experienced a 4.2% increase in total assets over the past year. From $2.075 billion as of June 30, 2018, the University's assets climbed to $2.161 billion as of June 30, 2019. This continues a strong run of asset growth. Over the last decade, assets have increased by $851 million. The major asset categories for the University are presented in Figure 1.

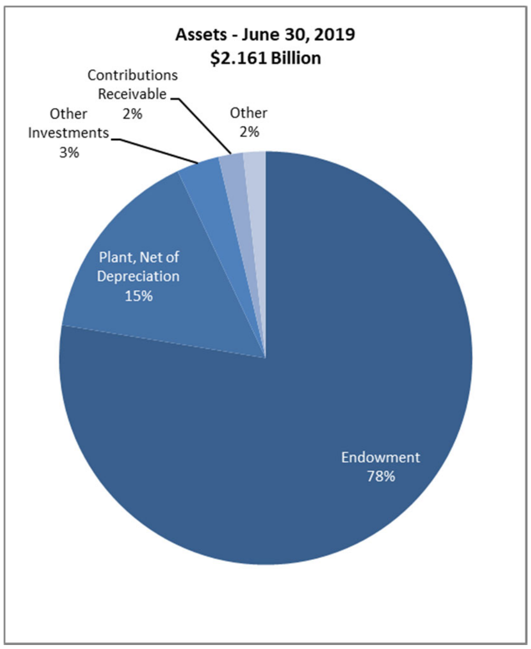

Figure 1

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 $1.676 billion at June 30, 2019 (See Fig. 2).

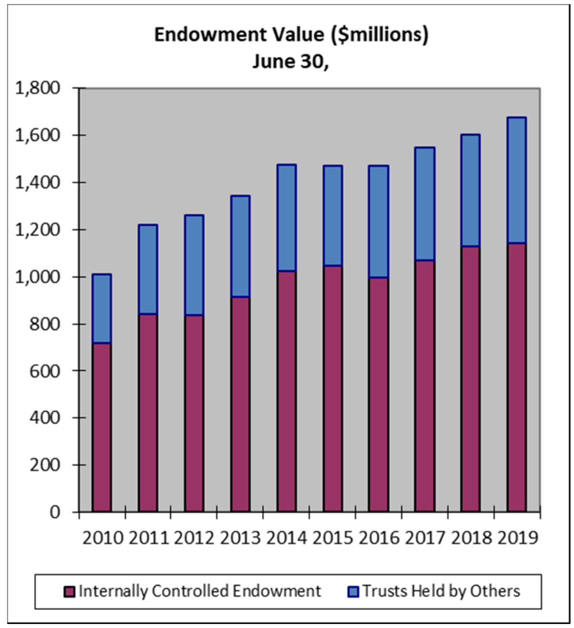

Figure 2

This is up from $1.603 billion as of June 30, 2018. Investment returns for the internally managed endowment were up with a +4.6% return. This positive return coupled with new gifts and additions to the endowment of $16.6 million more than offset the allocation from endowment for operating support of $53.2 million. The internally controlled endowment grew from $1.129 billion at June 30, 2018 to $1.142 billion as of June 30, 2019, an increase of $13.3 million. The market value of Trusts Held by Others increased dramatically by $59.7 million as stock of The Coca-Cola Company within the Lettie Pate Evans Restricted Fund Trust grew by 16.1%. Increases of other investment gains across the other thirty-five trusts held for the benefit of the University supplemented the growth in this asset. Distributions from trusts increased by $745,000 in FY 2019 to $15.76 million.

Returns on a nominal basis for endowment funds with external managers fell short of the University's long-term expected return (4.6% actual versus 7.5% targeted). Over the longer term, the annual return for the ten-year period ended June 30, 2019 of 8.5% exceeds annualized spending from the endowment as well as the long-term return assumption. While not yet having adequate peer data to assess these results on a relative basis, the administration is pleased with the performance of 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 3, 5 and 10-year basis with annualized volatility of the W&L portfolio at just 70% of the benchmark portfolio.

Physical Facilities: The University's physical facilities represent the second largest financial investment. Unlike the endowment, 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 2018-19 year, the University continued 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 while the Woods Creek Apartments project was financed through new debt. Beyond these two projects, the University began the first of the projects associated with the new strategic plan with Phase 1 of the CARPE project in Leyburn Library.

Beyond CARPE, the strategic plan that was approved in May 2018 includes eleven other major capital projects to be completed over the next decade. These include expansion of the Williams School including the 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 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 a gift flow as during the campaign period. This is the case for W&L. As of June 30, 2019, contributions receivable were valued at $41.7 million. This is down from $48.3 million at June 30, 2018, reflecting the payments made on pledges from the most recent campaign while also accounting for new pledge commitments received over the succeeding four 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 $51.5 million at the end of this most recent fiscal year, up slightly from $51.0 million at the end of fiscal year 2018. The increase reflects the combination of new additions and investment performance offset by distributions.

(Continued)

Liabilities

On the other side of the ledger, the University has liabilities totaling $278.7 million. Three types of liabilities comprise 92% of this total: debt, future annuity payments and postretirement benefits. (See Fig. 3)

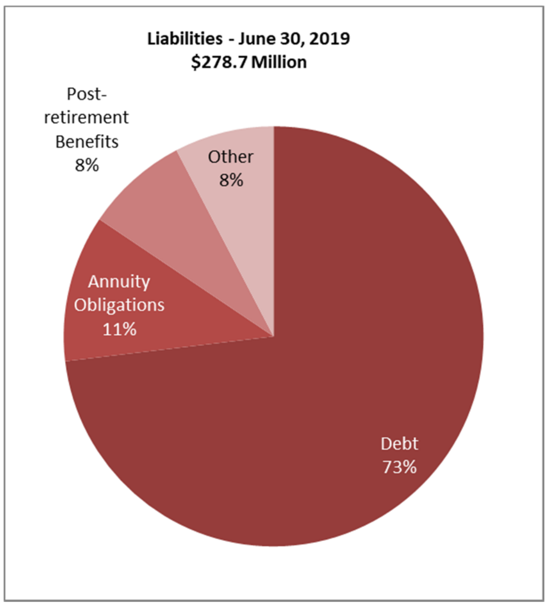

Figure 3

Debt: Washington and Lee University's largest liability is long-term debt that has been incurred over the years to support capital building projects. In the fall of 2018, the University issued $51.1 million of debt with $22.0 million in new debt supporting the Duchossois Athletic and Recreation Center and Woods Creek Apartments projects with the balance refunding the 2010 and 2015B bonds. Debt at the University now stands at $203.8 million. Over the past year, the University made $4.37 million of payments toward principal and $9.56 million in interest payments. Total debt 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, 2019, 93% is fixed rate and 7% is variable rate debt. Maturities extend to 2048 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 $84.7 million are noncallable.

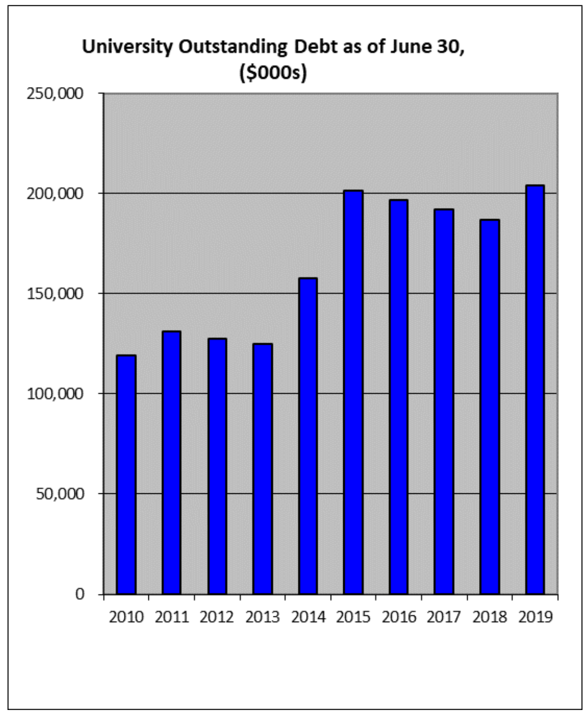

Figure 4

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. These strong ratings reflect outside agencies' positive 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 7.9% 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 in the 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, 2019, this liability was recorded at $31.5 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 $22.1 million, up from $20.1 million at June 30, 2018. This benefit is 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 two components: Without Donor Restrictions and With Donor Restrictions.

Without Donor Restrictions: 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 (100 such endowments today), investment returns and the development of reserves over the years. The University saw this class of net assets decrease modestly by $1.2 million to $374.2 million at June 30, 2019.

With Donor Restrictions: These funds are comprised of assets that act as endowment or are fully expendable but restricted by a purpose or timeframe for use through a donor and include split interest agreements. The majority of these assets reside in the University's endowment (1,298 individual endowment accounts) and Trusts Held by Others (36 such instruments). The value of this net asset component increased by $70.3 million to $1.510 billion. Table 1 summarizes the University's Statement of Financial Position.

Table 1

Summary Statement of Financial Position June 30, 2019 ($000s)	
Assets:	
Cash and Cash Equivalents	$ 18,475
Accounts and Notes Receivable	11,938
Contributions Receivable, net	41,657
Inventories	1,615
Investments	1,214,204
Funds Held in Trust by Others	533,958
Assets Restricted to Investment in Plant	5,950
Land, Buildings and Equipment, net	333,638
Total Assets	$ 2,161,435
Liabilities:	
Accounts and Other Payables	$ 13,217
Accrued Compensation	4,416
Student and Other Deposits	255
Deferred Revenue	1,554
U.S. Government Grants Refundable	1,179
Annuity Obligations	31,508
Asset Retirement Obligations	465
Capital Lease Obligations	255
Long-term Debt	203,766
Postretirement Benefit Obligations	22,080
Total Liabilities	278,695
Net Assets:	
Without Donor Restrictions	374,213
With Donor Restrictions	1,508,527
Total Net Assets	1,882,740
Total Liabilities and Net Assets	$ 2,161,435

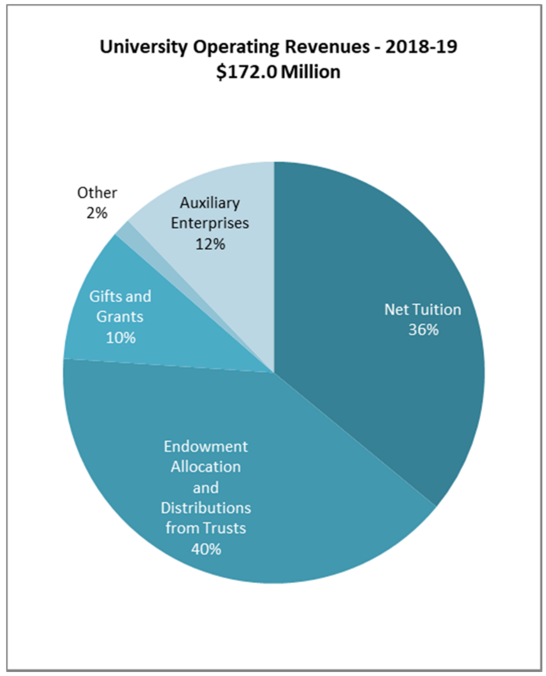

Figure 5

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.

Tuition remains a vital source of operational support; however, it is important to understand the context around costs, stated tuition and net tuition. In 2018-19, the University incurred a cost on average of $66,297 per student for educational and student services. The stated tuition and mandatory fees rate was $52,455 and the average tuition and fees paid by families after financial aid was just $25,582. Every student received a subsidy toward their education of at least $13,842, and for over 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 2018-19, net tuition revenues decreased by 0.3% to $61.9 million. Two factors played into this result. The first was higher than expected aid to the incoming first-year undergraduate class, and the second was a significant increase in the number of students who studied abroad. While financial aid continues to be a significant priority for the University, it is recognized that until there is additional endowment support, the goal of need-blind admissions cannot be achieved. Over the long-term as we move to need-blind admissions with new endowment support, net tuition revenue growth will slow. Revenues from endowment, however, will grow more rapidly allowing the University to continue to attract the very best students without regard to financial circumstances.

Table 2 outlines the operating results for the year.

Table 2

Summary Statement of Activities June 30, 2019 ($000s)	
Revenues:	
Tuition and Fees (net of $50,395 for student financial aid)	61,876
Endowment Return Allocated to Operations	53,150
Income from Funds Held in Trust by Others	15,762
Contributions and Grants	17,833
Auxiliary Enterprises (net of $3,443 of aid)	20,912
Other	2,429
Total	**171,962**
Expenses:	
Instructional	81,099
Academic Support	21,742
Student Services	15,528
Institutional Support	22,378
Financial Aid	4,139
Auxiliary Enterprises	29,407
Total	**174,293**
Operating Deficit	(2,331)
Increase in Net Assets from Non-Operating Activities	70,177
Change in Net Assets	**$ 67,846**

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 ($50.40 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $3.44 million. Finally, within the Expenses section, there is a line item for Financial Aid that totals $4.14 million (this amount represents awards that exceed tuition, room and board). On a combined basis, student financial aid awarded by the University in 2018-19 was $58.0 million reaching 53% of the undergraduate student population and 90% of law students.

Endowment distributions, whether from the defined payout formula or allocations from Trusts Held by Others, accounted for 40.1% of the operating revenues in 2018-19, at $68.9 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 2018-19, the University followed its normal spending formula of increasing unit endowment spending over the prior year by inflation plus one percent. This yielded a payout rate of 4.68%. Law School endowments retained the supplemental increased payout adopted by the Board of Trustees for a fourth year at 6.5%. It is planned that the Law School will be weaned from this supplemental payout by the 2021-22 year.

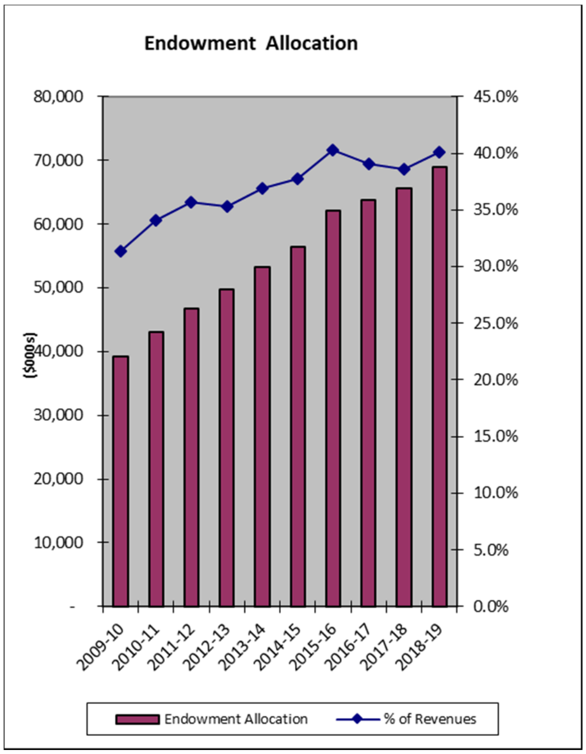

Figure 6

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 2018-19, the Annual Fund yielded a $10.71 million result, the second highest total in its history. In addition, the University maintained a high undergraduate alumni participation rate with 48.4% making gifts. It is worth noting that trends among selective liberal arts colleges reflect declining participation rates and this will need to be watched going forward.

These unrestricted gifts underwrite all aspects of University life. In the aggregate, Washington and Lee received $17.8 million in expendable contributions and grants in 2018-19 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 $381 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 2018 (the most recent with comparative information), Washington and Lee posted a ratio of 0.217. This was the lowest among the Top-25 liberal arts institutions as defined by U.S. News where the mean of the group was 0.345.

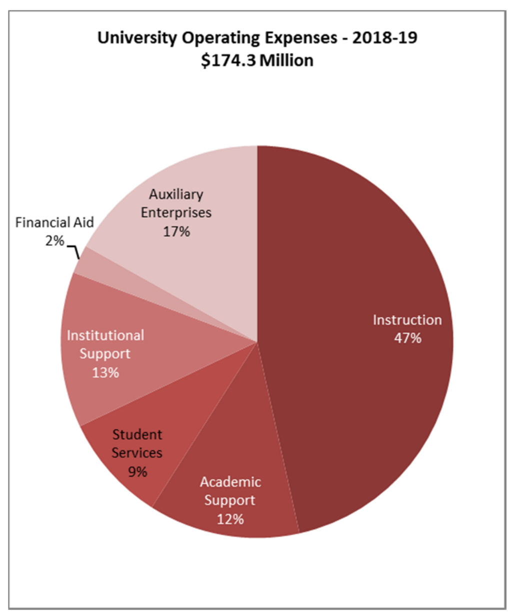

Figure 7

As in past years, comparisons of expenses within the Top-25 liberal arts colleges reveal that Washington and Lee consistently spends a higher percentage of its budget for educational expenses than the peer average (59.2% versus 50.8%). The University's aggregate expenses per student, however, fall below the average expense per student of the peers by $10,100.

Results from Operations reflect an Operating deficit of $2.331 million versus an Operating surplus of $3.252 million in 2018. This unplanned deficit results from four primary factors: health insurance claims experience that substantially exceeded expectations ($1.57 million), growth in depreciation ($1.52 million), growth in interest expense ($1.20 million), and declining net tuition revenues with student aid and study abroad contributing to this weakness ($1.04 million).

As we have examined the construction of the operating budget, one area that we recognize as a deficiency is the lack of budgeting for depreciation which results in the operating budget utilizing a modified cash flow approach rather than GAAP reporting as required in the audited financial statements. This budgeting approach excludes a depreciation expense of $18.57 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

The University anticipates that 2019-20 results will also reflect a deficit as the University has made several investments in the strategic plan in advance of fundraising support, challenges of health insurance claims remain, and the overrun in student aid for the entering class in the fall of 2018 has a four-year impact. However, in working with senior administration and the Board of Trustees, we believe that we will be able to achieve a balanced budget in 2020-21 and then begin to build back reserves drawn down in 2018-19 and likely in 2019-20.

In spite of operating at a deficit in the short-term, we believe the Strategic Plan will continue to advance the University by ensuring the continued sustainability of the institution as one of the premier institutions in higher education. We operate 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.

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Independent Auditors' Report

The Board of Trustees
The Washington and Lee University:

We have audited the accompanying consolidated financial statements of The Washington and Lee University and its affiliate (the University), which comprise the consolidated statement of financial position as of June 30, 2019, 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 University'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 University'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, 2019, 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.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, in 2019, the University adopted new accounting guidance: Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended; ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* As part of our audit of the 2019 consolidated financial statements, we also audited adjustments described in note 2 that were applied to adopt ASU 2016-14 retrospectively in the 2019 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

Richmond, Virginia
October 28, 2019

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Statement of Financial Position

June 30, 2019
(with comparative information as of June 30, 2018)

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	18,475	15,662
Accounts receivables and other assets, net		7,753	6,472
Notes receivable, net		4,185	6,091
Contributions receivable, net		41,657	48,251
Inventories		1,615	1,672
Investments		1,214,204	1,199,401
Funds held in trust by others		533,958	474,098
Unspent bond proceeds		5,404	—
Assets restricted to investment in land, buildings, and equipment		546	2,477
Land, buildings, and equipment, net		333,638	320,591
Total assets	$	2,161,435	2,074,715
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	13,217	12,035
Accrued compensation		4,416	4,252
Student and other deposits		255	994
Deferred revenue		1,554	1,478
U.S. government grants refundable		1,179	1,148
Split interest agreement obligations		31,508	32,170
Asset retirement obligations		465	687
Capital lease obligations		255	706
Long-term debt		203,766	186,301
Postretirement benefit obligation		22,080	20,050
Total liabilities		278,695	259,821
Commitments and contingencies			
Net assets:			
Without donor restrictions		374,213	375,430
With donor restrictions		1,508,527	1,439,464
Total net assets		1,882,740	1,814,894
Total liabilities and net assets	$	2,161,435	2,074,715

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Statement of Activities

Year ended June 30, 2019
(with summarized comparative information for the year ended June 30, 2018)

(In thousands)

	2019 Without donor restrictions	2019 With donor restrictions	2019 Total	2018 Total
Operating revenues and gains:				
Tuition and fees (net of $50,395 in 2019 and $46,197 in 2018 for student financial aid)	$ 61,876	—	61,876	62,070
Endowment return allocated to operations	44,940	8,210	53,150	50,568
Other investment income	1,273	168	1,441	778
Distributions from funds held in trust by others	15,664	98	15,762	15,017
Contributions	12,596	4,256	16,852	19,108
Auxiliary enterprises (net of $3,443 in 2019 and $3,076 in 2018 for student financial aid)	20,912	—	20,912	20,861
Governmental and other grants	—	981	981	1,008
Other	701	287	988	408
Net assets released from restrictions	12,730	(12,730)	—	—
Total operating revenues and gains	170,692	1,270	171,962	169,818
Operating expenses:				
Instruction	81,099	—	81,099	78,680
Academic support	25,881	—	25,881	24,106
Student services	15,528	—	15,528	14,978
Institutional support	22,378	—	22,378	21,317
Auxiliary enterprises	29,407	—	29,407	27,485
Total operating expenses	174,293	—	174,293	166,566
Change in net assets from operating activities	(3,601)	1,270	(2,331)	3,252
Nonoperating activities:				
Investment return, net of amount allocated to operations	642	2,710	3,352	48,767
Change in value of funds held in trust by others	—	59,869	59,869	(2,978)
Split interest agreements, net	141	(2,884)	(2,743)	(4,416)
Contributions	—	11,014	11,014	16,051
Net assets released for fixed asset acquisitions	3,929	(3,929)	—	—
Postretirement charge other than benefit cost	(1,265)	—	(1,265)	685
Other, net	(1,063)	1,013	(50)	(1,680)
Total nonoperating activities	2,384	67,793	70,177	56,429
Change in net assets	(1,217)	69,063	67,846	59,681
Net assets:				
Beginning of year	375,430	1,439,464	1,814,894	1,755,213
End of year	$ 374,213	1,508,527	1,882,740	1,814,894

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY
AND ITS AFFILIATE

Consolidated Statement of Cash Flows

Year ended June 30, 2019
(with comparative information for the year ended June 30, 2018)

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	67,846	59,681
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Net realized and unrealized gains on investments		(51,527)	(93,322)
Depreciation and amortization		18,565	17,049
Loss on disposal of fixed assets		89	1,361
Contributions restricted for long-term investment in endowment and plant		(20,623)	(26,396)
Interest and dividends restricted for long-term investment		(838)	(326)
Changes in assets and liabilities:			
Accounts receivables and other assets, net		625	1,517
Contributions receivable, net		6,594	4,971
Inventories		57	(324)
Funds held in trust by others		(59,860)	3,195
Accounts and other payables		(274)	2,334
Student and other deposits		(739)	224
Deferred revenue		76	(274)
U.S. government grants refundable		31	(218)
Split interest agreement obligations		2,469	4,374
Postretirement benefit obligations		2,030	452
Net cash and cash equivalents used in operating activities		(35,479)	(25,702)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(30,501)	(15,384)
Proceeds from sales of land, buildings, and equipment		7	—
Purchases of investments restricted to land, buildings, and equipment		(28,168)	(13,786)
Proceeds from sale of investments		270,573	267,903
Purchases of investments		(208,728)	(219,906)
Net cash and cash equivalents provided by investing activities		3,183	18,827
Cash flows from financing activities:			
Principal payments on capital lease obligations		(451)	(576)
Interest and dividends restricted for long-term investment		540	326
Proceeds from contributions restricted for long-term investment in endowment and plant		20,685	26,411
Payments of debt issuance costs		(443)	—
Payments on split interest agreements		(3,323)	(4,923)
Proceeds from issuance of long-term debt		51,186	—
Principal payments on long-term debt		(33,085)	(4,258)
Net cash and cash equivalents provided by financing activities		35,109	16,980
Net increase in cash and cash equivalents		2,813	10,105
Cash and cash equivalents:			
Beginning of year		15,662	5,557
End of year	$	18,475	15,662
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	9,563	8,368

Noncash investing and financing activities, in thousands:
At June 30, 2019 and 2018, $2,127 and $506, respectively, of fixed asset purchases were included in accounts and other payables.
For the years ending June 30, 2019 and 2018, the University incurred capital lease obligations of $0 and $35, 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 two classes:

Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Previously, and as of June 30, 2018, this net asset class was unrestricted net assets.

With Donor Restrictions – 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; or limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the University.

Previously, and as of June 30, 2018, net assets classified as with donor restrictions, included both temporarily restricted and permanently restricted net assets of $455,262 and $984,223, respectively.

The University retains an interest in several funds held in trust by others (see note 10) which are classified as with donor restrictions net assets. Annual adjustments to record the University's interest in such trusts at the current market value are also recorded as with donor restrictions in the consolidated statement of activities and are, therefore, reflected as with donor restrictions net assets in the consolidated statement of financial position.

(d) Summarized Comparative Information

The consolidated statement of activities for the year ended June 30, 2019 is presented with certain summarized comparative information for the year ended June 30, 2018 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, 2018 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 limits.

(f) Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out 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 revenue with donor restrictions or revenue without donor restrictions 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) 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.

(j) Split Interest Agreement Obligations

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.

(k) Tuition and Fees and Auxiliary Revenue

Under Accounting Standards Update (ASU) 2014-09, *Revenue from Contacts with Customers (Topic 606)*, revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services (i.e., the transaction price). Student tuition and fees and auxiliary revenue are recognized as revenue in the consolidated statement of activities, net of institutional aid provided to the student, 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 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. Aid in excess of a student's tuition and fees is reflected as a reduction of Auxiliary Enterprises. Disbursements made directly to students for living or other costs are reported as an expense.

The composition of net student tuition and fee revenue was as follows for the years ended June 30, 2019 and 2018 (in thousands):

		2019	2018
Undergraduate	$	91,952	88,833
Law		19,287	18,689
Other		1,032	745
Less student financial aid		(50,395)	(46,197)
Total	$	61,876	62,070

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2019 and 2018 (in thousands):

		2019	2018
Residence and dining services, net of student financial aid	$	15,934	15,814
Retail operations and other auxiliary services		4,978	5,059
Total	$	20,912	20,873

(l) 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 contributions without donor restrictions.

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, assets with donor restrictions are reclassified to assets without donor restrictions 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.

(m) 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.

(n) 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.

(o) 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.

(Continued)

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 has evaluated the new law and maintains that the impact on the University will be immaterial.

(p) 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 8 for additional information with respect to fair value measurements.

(q) 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.

(r) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ASU 2014-09, *Revenue from Contract with Customers (Topic 606)*, which requires entities to recognize revenue when control of the promised goods or services in transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. For Washington and Lee University the requirement has been adopted using the modified retrospective approach effective July 1, 2018. The adoption of this standard did not materially affect consolidated changes in net assets, financial position, or cash flows.

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. Additionally, this ASU requires presentation of expenses by functional and natural classifications in one location within the consolidated financial statements. See note 13. The University adopted ASU 2016-14 for the consolidated financial statements for the year ended June 30, 2019 and applied the changes retrospectively.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance, and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes both a barrier or barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The University adopted this standard prospectively for contributions received for the fiscal year ended June 30, 2019. The impact was not material to the consolidated financial statements or 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 2020-2021 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. 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses eight specific cash flow issues. 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 2020-2021. 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.

(s) Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

(3) Liquidity and Availability

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, were as follows (in thousands):

Cash and cash equivalents	$	18,475
Accounts and other receivables		2,175
Contributions receivable		10,972
Investments		7,228
Endowment return allocation		53,150
Total	$	92,000

None of the assets above are subject to donor or other restrictions that would make them unavailable for general expenditures within one year of June 30, 2019. In addition to financial assets available to meet general expenditures within one year, the following amounts are expected to be released from restricted financial assets over the next 12 months to meet expected construction costs:

Bond proceeds	$	5,404
Net assets restricted for land, buildings, and equipment		546
Total	$	5,950

The University’s cash flows have seasonal variations attributable primarily to the timing of tuition billing and contributions received. As part of the University’s liquidity management, the University maintains access to a $15,000,000 line of credit, all of which is currently available, as disclosed in note 11.

(4) Notes Receivable

Notes receivable are carried at unpaid principal balance, less an allowance for doubtful accounts, and consist of the following at June 30, 2019 and 2018 (in thousands):

	Maturity	Interest rates	2019	2018
Student financial aid:				
Federally funded aid, net of allowance for doubtful accounts of $287 and $280, respectively	Up to 10 years	3%–5%	$ 708	958
University funded aid, net of allowance for doubtful accounts of $678 and $506, respectively	Up to 10 years	3%–8%	3,337	3,439
Other notes:				
Miscellaneous notes	Various	Various	140	1,694
			$ 4,185	6,091

(5) 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, 2019 and 2018 (in thousands):

	2019	2018
Less than one year	$ 14,945	18,974
One year to five years	27,603	29,835
Over five years	1,032	1,878
Total contributions receivable, gross	43,580	50,687
Less allowance for uncollectible contributions	(424)	(490)
Total contributions receivable, net of allowance	43,156	50,197
Discount (rates ranging from 0.79% to 4.89%)	(1,499)	(1,946)
Total	$ 41,657	48,251

(Continued)

(6) Land, Buildings, and Equipment

Land, buildings, and equipment, net at June 30, 2019 and 2018 consist of the following (in thousands):

		2019	2018
Land	$	6,124	6,124
Land improvements		22,731	22,502
Buildings and improvements		421,457	419,296
Equipment		62,851	61,448
Art properties		4,864	4,604
		518,027	513,974
Less accumulated depreciation and amortization		(218,381)	(202,401)
		299,646	311,573
Construction in progress		33,992	9,018
Total	$	333,638	320,591

(7) 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, 2019 and 2018 for each class of net asset is as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
2019:				
Net assets:				
Investment pool	$	257,066	889,404	1,146,470
Annuity and life income		—	51,537	51,537
Other		16,197	—	16,197
Investments as of June 30, 2019	$	273,263	940,941	1,214,204

		Without donor restrictions	With donor restrictions	Total
2018:				
Net assets:				
Investment pool	$	258,439	874,518	1,132,957
Annuity and life income		—	51,032	51,032
Other		15,412	—	15,412
Investments as of June 30, 2018	$	273,851	925,550	1,199,401

Investments are comprised of the following at June 30, 2019 and 2018 (in thousands):

		2019	2018
Short-term investments	$	21,369	13,199
Equities		130,120	159,441
Fixed income		51,329	66,346
Real assets		52,953	43,430
Hedge funds		2,315	3,637
Mortgage loans to faculty and staff		52,448	50,983
Multi-Asset Class (see below) *		790,226	792,537
Private equity/venture capital		113,444	69,828
Total	$	1,214,204	1,199,401

* 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 tables summarizes the investment return and its classification in the consolidated statement of activities (in thousands):

2019		Without donor restrictions	With donor restrictions	Total
Interest and dividend income	$	5,812	604	6,416
Net appreciation in fair value of investments, including net investment expenses of $7,063		41,043	10,484	51,527
Total investment return		46,855	11,088	57,943
Less:				
Investment return available under spending policy		(44,940)	(8,210)	(53,150)
Other investment returns		(1,273)	(168)	(1,441)
Investment return in excess of amount available under spending policy	$	642	2,710	3,352

2018		Without donor restrictions	With donor restrictions	Total
Interest and dividend income	$	5,883	907	6,790
Net appreciation in fair value of investments, including net investment expenses of $7,503		47,793	45,530	93,323
Total investment return		53,676	46,437	100,113
Less:				
Investment return available under spending policy		(43,047)	(7,521)	(50,568)
Other investment returns		(628)	(150)	(778)
Investment return in excess of amount available under spending policy	$	10,001	38,766	48,767

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. Approximately 82% and 77% of the University's endowment funds were held at Makena as of June 30, 2019 and 2018, respectively.

Makena utilizes both traditional and nontraditional investment strategies for the implementation of asset allocation. The single investment pooled fund is invested in approximately 130 individual managers across 7 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, 2019 and 2018 was allocated across the following asset classes as follows:

	2019	2018
Equity	37 %	35 %
Real estate	11	12
Private equity	22	20
Natural resources	7	6
Absolute return	11	14
Fixed income	10	7
Cash	2	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, 2019, 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	$ 48,555	43,452	*	*
Multi-Asset Class	790,226	—	Annual	1 year
Private equity/venture capital	113,444	96,216	*	*

* 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.

(8) 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 1.2% to 10.6% at June 30, 2019 and 2018, 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 carrying amount of mortgage loans to employees is determined to approximate fair value. 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.

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, 2019 (in thousands):

	June 30, 2019	Fair value measurements at reporting date using			
		Level 1	Level 2	Level 3	NAV[1]
Assets:					
Investments:					
Short-term investments	$ 21,369	17,313	4,056	—	—
Equities	130,120	110,235	—	—	19,885
Fixed income	51,329	38,002	12,958	369	—
Real assets	52,953	956	3,442	—	48,555
Hedge funds	2,315	2,315	—	—	—
Mortgage loans to staff and fraternities	52,448	—	52,448	—	—
Multi-Asset Class	790,226	—	—	—	790,226
Private equity/venture capital	113,444	—	—	—	113,444
Total investments	1,214,204	168,821	72,904	369	972,110
Funds held in trust by others	533,958	—	—	533,958	—
Total assets	$ 1,748,162	168,821	72,904	534,327	972,110

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, 2019.

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	369	926,647
Funds held in trust by others	474,098	—	—	474,098	—
Total assets	$ 1,673,499	203,180	69,205	474,467	926,647

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 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, 2019 and 2018 (in thousands):

		Investments	Funds held in trust by others	Total
Ending balance at June 30, 2017	$	398	477,293	477,691
Net realized and unrealized gains		—	12,096	12,096
Net maturities		—	(332)	(332)
Contributions		—	116	116
Distributions		(29)	(15,075)	(15,104)
Ending balance at June 30, 2018		369	474,098	474,467
Net realized and unrealized gains		—	76,538	76,538
Net maturities		—	(882)	(882)
Contributions		—	—	—
Distributions		—	(15,796)	(15,796)
Ending balance at June 30, 2019	$	369	533,958	534,327

(9) 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, 2019, the University holds 1,398 endowment funds, of which 1,292 are true endowments (restricted by the donor), six are term endowments (restricted by the donor and the principal may be spent) and 100 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 net assets with donor restrictions.

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, 2019 (in thousands):

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	885,808	885,808
Board-designated endowment funds		256,542	—	256,542
Total endowed net assets	$	256,542	885,808	1,142,350

Endowment net assets consist of the following at June 30, 2018 (in thousands):

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	871,185	871,185
Board-designated endowment funds		257,831	—	257,831
Total endowed net assets	$	257,831	871,185	1,129,016

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2017	$	246,764	823,078	1,069,842
Investment return:				
Investment income		886	2,957	3,843
Net appreciation		19,884	70,777	90,661
Contributions and pledge payments		1,113	14,125	15,238
Appropriation for expenditure		(10,816)	(39,752)	(50,568)
Endowment net assets, June 30, 2018		257,831	871,185	1,129,016
Investment return:				
Investment income		887	2,602	3,489
Net appreciation		8,759	37,595	46,354
Contributions and pledge payments		315	16,326	16,641
Appropriation for expenditure		(11,250)	(41,900)	(53,150)
Endowment net assets, June 30, 2019	$	256,542	885,808	1,142,350

(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 net assets with donor restrictions were $64,000 and $21,000 as of June 30, 2019 and 2018, respectively.

(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 4.68% and 4.69% for the years ended June 30, 2019 and 2018, respectively.

(10) 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, 2019 and 2018, the fair value of the University's interest was reported by the trustees as $491,658,000 and $432,810,000, respectively. During the years ended June 30, 2019 and 2018, the University received distributions of $14,999,000 and $14,260,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2019 and 2018, the University maintained an interest in 35 other trusts with fair values of the University's interest, as reported by the trustees of approximately $42,300,000 and $41,288,000, respectively, and received distributions for the years ended June 30, 2019 and 2018 of $763,000 and $757,000, respectively.

(11) Long-Term Debt

Long-term debt consists of the following obligations at June 30, 2019 and 2018 (in thousands):

	Final maturity	Interest rates	2019	2018
Virginia College Building Authority (VCBA):				
1998 Note, includes unamortized premium of $663 and $739, and unamortized debt issuance cost of $203 and $222, respectively (A)	January 2031	5.03%–5.05%	$ 52,665	52,722
2001 Note, includes unamortized premium of $1,406 and $1,507, and unamortized debt issuance cost of $144 and $154, respectively (B)	January 2034	5.00%–5.75%	32,078	35,463
2015A Note, includes unamortized premium of $4,179 and $4,341 and unamortized debt issuance cost of $266 and $276, respectively (C)	January 2040	2.25%–5.00%	33,729	34,650
2015B Note, includes unamortized debt issuance cost of $0 and $129 (D)	January 2043	Variable	—	14,871
Industrial Development Authority of the City of Lexington:				
2010 Note, includes unamortized debt issuance cost of $0 and $126 (E)	January 2035	Variable	—	13,594
2013 Note, includes unamortized premium of $279 and $291, and unamortized debt issuance cost of $240 and $250, respectively (F)	January 2043	4.88 %	34,999	35,001
2018A Note, includes unamortized premium of $5,125 and issuance cost of $328 (G)	June 2048	5.00 %	35,287	—
2018B Note, includes unamortized issuance cost of $102 (H)	June 2043	Variable	15,008	—
			$ 203,766	186,301

(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) Semi-annual interest payments began July 1, 2015 with annual principal payments commencing January 1, 2017 and continuing until maturity in January 2026.

(D) These bonds were refunded from the proceeds of the 2018B series bonds in July.

(E) These bonds were refunded from the proceeds of the 2018A series bonds in July.

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

(G) In July 2018, the Lexington Authority issued revenue bonds in the amount of $30,790,000 known as Series 2018A 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 2010 Bonds, and (3) financing costs of issuance, funded interest, if any, and reserves, if any, with respect to the Bonds. Principal and interest payments are paid semi-annually in January and July, commencing January 2019 and continuing until maturity in June 2048.

(H) In July 2018, the Lexington Authority issued revenue bonds in the amount of $15,110,000 known as Series 2018B Bonds, (1) refunding all or a portion of the Series 2015B Bonds, (2) financing costs of issuance, funded interest, if any, and reserves, if any, with respect to the Bonds. Monthly interest payments began July 2018 with annual principal payments commencing June 30, 2036 and continuing until maturity in June 2043. The interest rates for the year ended June 30, 2019 ranged from 2.24% to 2.58%.

Aggregate principal payments due for the next five fiscal years are: 2020 – $4,625,000; 2021 – $5,235,000; 2022 – $5,420,000; 2023 – $5,685,000; 2024 – $5,965,000; and thereafter –$166,465,000.

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, 2022 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, 2019, the University had $15,000,000 available under this facility.

(12) Net Assets

(a) Net assets at June 30, 2019 were as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Operations	$	11,083	21,402	32,485
Student loan funds		1,156	4,418	5,574
Net investment in plant		126,699	—	126,699
Physical plant acquisitions		—	546	546
Quasi endowment funds		256,542	—	256,542
Donor restricted endowment		—	885,808	885,808
Contributions receivable		214	42,164	42,378
Split-interest agreements		599	20,231	20,830
Trust held by others		—	533,958	533,958
Post-retirement		(22,080)	—	(22,080)
Total	$	374,213	1,508,527	1,882,740

(b) Net Assets at June 30, 2018 were as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Operations	$	11,487	19,292	30,779
Student loan funds		1,100	4,431	5,531
Net investment in plant		124,584	—	124,584
Physical plant acquisitions		—	2,477	2,477
Quasi endowment funds		257,831	—	257,831
Donor restricted endowment		—	871,185	871,185
Contributions receivable		42	48,990	49,032
Split-interest agreements		436	18,991	19,427
Trust held by others		—	474,098	474,098
Post-retirement		(20,050)	—	(20,050)
Total	$	375,430	1,439,464	1,814,894

(a) 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, 2019 were as follows (in thousands):

Operations:		
Financial aid	$	2,675
Program support		4,104
Other		1,472
Net investment in plant		4,479
		12,730
Nonoperations:		
Net assets released for fixed asset acquisitions		3,929
Total	$	16,659

(13) Expenses

Expenses for the year ended June 30, 2019 were incurred for the following (in thousands):

		Salaries, wages and benefits	Supplies and services	Cost of sales	Deprecation and amortization	Interest	Total
Instruction and research	$	58,074	10,670	1	8,961	3,393	81,099
Academic support		13,852	9,732	—	1,998	299	25,881
Student services		9,553	4,652	12	729	582	15,528
Institutional support		14,783	6,623	—	787	185	22,378
Auxiliary enterprises		9,515	4,118	5,300	6,256	4,218	29,407
Total	$	105,777	35,795	5,313	18,731	8,677	174,293

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

	Salaries, wages and benefits	Supplies and services	Cost of sales	Deprecation and amortization	Interest	Total
Instruction and research	$ 56,571	11,000	2	8,234	2,873	78,680
Academic support	13,269	8,668	1	1,836	332	24,106
Student services	9,165	4,484	11	670	648	14,978
Institutional support	14,243	6,175	1	723	175	21,317
Auxiliary enterprises	8,790	4,081	5,013	5,748	3,853	27,485
Total	$ 102,038	34,408	5,028	17,211	7,881	166,566

(14) 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 $6,503,000 and $6,298,000 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 totaled $131,000 and $120,000, respectively.

(15) Postretirement Benefits

The University currently provides health insurance in the form of a retiree medical benefit (the Plan) to certain retired employees and their dependents. The costs of postretirement benefits are accrued during the service lives of employees. 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, 2019 and 2018 were as follows (in thousands):

	2019	2018
Service cost (benefits attributed to employee service during the year)	$ 536	539
Interest cost on accumulated postretirement benefit obligation	803	788
Amortization of prior service cost	430	584
Net periodic postretirement benefit cost	$ 1,769	1,911

The amortized actuarial loss 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, 2019 and 2018 was 3.25% and 4.00%, respectively. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 7.5% in 2019, 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, 2019 and 2018 (in thousands):

		2019	2018
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	20,050	19,597
Service cost		536	539
Interest cost		803	788
Actuarial loss		1,695	21
Net benefits paid		(1,004)	(895)
Accumulated benefit obligation, end of year	$	22,080	20,050
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:			
Net actuarial loss (gain)	$	391	(1,304)
Prior service cost		1,691	2,121
	$	2,082	817

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2020 – $1,317,000; 2021 – $1,465,000; 2022 – $1,601,000; 2023 – $1,736,000; and 2024 – $1,860,000. An additional $9,960,000 is expected to be paid for the fiscal years 2025 through 2029.

Total employer and participant contributions are $1,004,000 and $67,000, respectively, for the year ended June 30, 2019. Total benefits paid for the year ended June 30, 2019 are $1,071,000. 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 expense discount rate for both of the years ended June 30, 2019 and 2018 was 3.25% and 4.00%, respectively. The measurement date was June 30, 2019.

(16) Commitments

The University's contractual commitments for capital expenditures totaled approximately $28,311,000 at June 30, 2019, and were comprised of the following (in thousands):

Athletic facilities upgrades	$	24,237
Residence hall upgrades		1,873
Facilities maintenance and utilities		1,097
Other		1,104
	$	28,311

(17) 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 76% and 77% of total funds held in trust by others for the periods ended June 30, 2019 and 2018, respectively.

(18) 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.

(19) Subsequent Events

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2019 consolidated financial statements through October 28, 2019, the date the consolidated financial statements were issued.

In October 2019, the Board of Trustees of the University approved a resolution authorizing management to take actions necessary to facilitate the issuance of new taxable revenue bonds in one or more series (collectively, the "New Bonds") subject to meeting certain terms and financial ratios. The maximum aggregate principal amount authorized for the New Bonds is $72,000,000 and the proceeds would be used to (1) advance refund all or a portion of the Series 2013 Bonds and the Series 2015A Bonds (see note 11), and (2) finance costs of issuance and reserves, if any, with respect to the New Bonds.