KPMG

THE WASHINGTON AND LEE UNIVERSITY

Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)

THE WASHINGTON AND LEE UNIVERSITY

June 30, 2020

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Management's Discussion and Analysis

Highlights from 2019-20

- University grants and scholarships were awarded to 53.7% of the undergraduates with the average institutional grant or scholarship award at $50,083. In 2010, the corresponding figures were 42.0% of undergraduates with average institutional award of $36,528.
- Endowment (including Trusts Held by Others) per Student finished the year at $723,231. At June 30, 2010, this value was $468,331. In other words, this increase in value of 54% has been captured over the past decade even as the endowment has distributed between 4% and 5% of its value annually.
- The University completed in the summer of 2020, the new Duchossois Athletic and Recreation Center. The project was completed on schedule and within budget. The University has embarked on phase 2 of the Center for Academic Resources and Pedagogical Excellence (CARPE) with completion expected by the fall of 2021. This project is significantly supported through a bequest from the estate of Houston Harte.
- Total endowment assets and funds held in trust by others ended the fiscal year at $1.630 billion down slightly from its high watermark in June 2019. The endowment managed by the University finished the year at $1.151 billion while trusts held by others were at $479 million.
- University received new gifts and pledges of $46.4 million with $23.7 million being earmarked for endowments.

Maintaining Focus in the Face of Uncertainty

The 2019-20 year started like most recent years. The University opened with strong enrollments and while the investment markets were not robust, they were trending positive. Planning and efforts throughout the year continued to focus on the strategic plan and advancing a number of initiatives accompanied by robust gift flow. By the first of March, the environment was shifting. With the rise of the COVID-19 pandemic, the University was forced to send students home and complete the year through virtual learning. With the move, the University refunded room and board to students but maintained full employment of its employees. Attention shifted toward contingency planning for 2020-21 with the hope that students would be able to return to campus. In May and June, nationally, as issues of racial justice and history emerged, W&L's history and namesakes were questioned leading to the development of a Special Committee of the Board to examine the issues and develop a set of recommendations to guide the University in the years to come. In short, what started as any other normal year turned to be anything but. Nevertheless, the University has continued to maintain a focus on the strategic plan with efforts to build on the four principles: Community, Curriculum, Citizenship and Campus. The University is able to do so because of the financial strength of the institution. We continue to believe that through the strategic plan, the University will be able to reach the absolute best students and provide an environment in which students not only succeed but thrive.

The history of the University is a history lesson in resilience and drive even in the face of the most extraordinary challenges and adverse situations. 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 2.8% decrease in total assets over the past year. From $2.161 billion as of June 30, 2019, the University's assets dropped to $2.102 billion as of June 30, 2020. This decline was primarily driven by the decline in the value of trusts held by others even though the distributions for operations from this source continued to grow. Even with this decline in the 2019-20 year, assets have increased by $714 million over the last decade. The major asset categories for the University are presented in Figure 1.

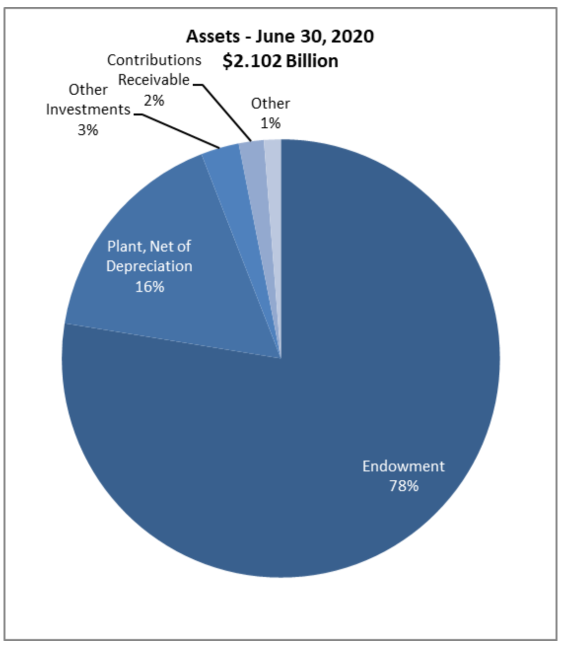

Figure 1

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 declined to $1.630 billion as of June 30, 2020 from its high-water mark of $1.676 billion at June 30, 2019 (See Fig. 2).

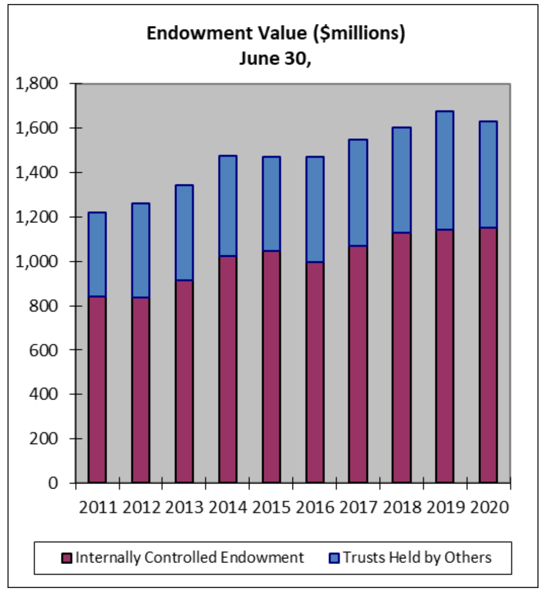

Figure 2

Investment returns for the internally managed endowment were up with a +3.2% return. This positive return coupled with new gifts and additions to the endowment of $30.0 million more than offset the allocation from endowment for operating support of $55.3 million. The internally controlled endowment grew from $1.142 billion at June 30, 2019 to $1.151 billion as of June 30, 2020, an increase of $9.4 million. The market value of Trusts Held by Others declined over the year primarily led by the decrease in the value of the stock of The Coca-Cola Company within the Lettie Pate Evans Restricted Fund Trust. The trust experienced a decline in market value of 11.4% over the year. Even with this decline in value, distributions from the Evans Trust as well as the thirty-six other trusts that the University benefits from grew by $549,000 to $16.3 million in 2019-20.

Returns on a nominal basis for endowment funds with external managers fell short of the University's long-term expected return (3.2% actual versus 7.2% targeted). Over the longer term, the annual return for the ten-year period ended June 30, 2020 of 7.4% exceeds annualized spending from the endowment as well as the long-term return assumption. While not yet having full 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. Based on the data that we do have, we believe the endowment return in 2019-20 will fall in the top one-third of endowment returns in higher education.

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 2019-20 year, the University continued construction of the new Duchossois Athletic and Recreation Center with it being completed in the summer of 2020. Significant funding of the Duchossois Athletic and Recreation Center came from fundraising with the balance funded through allocations from operations and debt. Beyond this project, the University has begun the first of the projects of the 2018 strategic plan with Phase 2 of the CARPE project in Leyburn Library.

Beyond CARPE, the current strategic plan 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. As of June 30, 2020, contributions receivable were valued at $38.7 million. This is down from $41.7 million at June 30, 2019, reflecting the collection on pledges in recent years. As fundraising for the strategic plan gains momentum, we would anticipate contributions receivables to grow in future 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 other investments totaled $59.4 million at the end of this most recent fiscal year, up from $51.5 million at the end of fiscal year 2019. The increase reflects the combination of new additions and investment performance offset by distributions.

Liabilities

On the other side of the ledger, the University has liabilities totaling $275.1 million. Three types of liabilities comprise 92% of this total: debt, future annuity payments and postretirement benefits. (See Fig. 3)

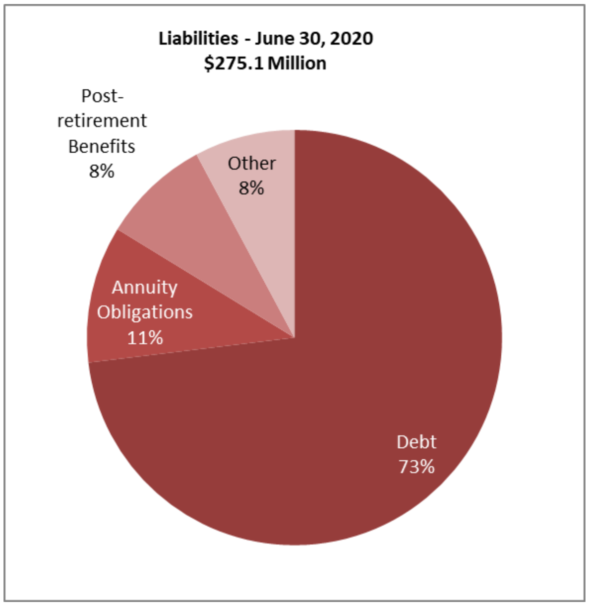

Figure 3

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 December 2019, the University issued $37.7 million of debt. This issuance was for the purpose of advanced refunding the 2013 debt and funding the needed refunding escrow. This issue is taxable as an advanced refunding with an interest rate at 3.38% (the 2013 issue was 4.88%). This advanced refunding allowed the University to alter the principal repayment while generating significant savings in interest expense over the life of the bonds. Debt at the University now stands at $201.1 million. Over the past year, the University made $4.28 million of payments toward principal and $9.07 million in interest payments. Total debt is composed of six different instruments, with five being tax-exempt issues through either the Virginia College Building Authority or the Lexington City Industrial Development Authority. The 2019 issue is the only taxable debt and was issued through the Lexington City Industrial Development Authority. Of the outstanding debt at June 30, 2020, 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.

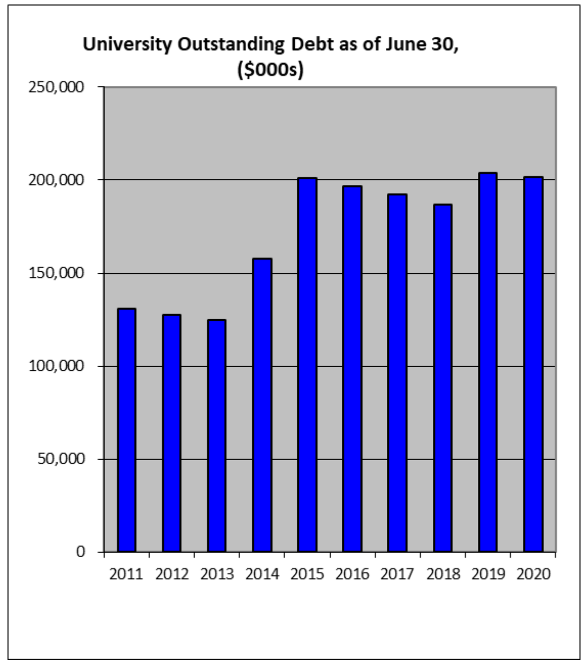

Figure 4

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 7.7% of operating expenses, the University falls comfortably within the institutional debt service parameter range of 4% to 10% of operations. 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, 2020, this liability was recorded at $29.3 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 $23.2 million, up from $22.1 million a year ago. 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 $4.15 million to $370.1 million at June 30, 2020.

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 (1,320 individual endowment accounts) and Trusts Held by Others (37 such instruments). The value of this net asset component decreased by $52.0 million to $1.457 billion. This decline can almost be entirely explained by the decline in the value of the Lettie Pate Evans Trust Restricted Fund. Table 1 summarizes the University's Statement of Financial Position.

Table 1

Summary
Statement of Financial Position
June 30, 2020
($000s)

Assets:		
Cash and cash equivalents	$	9,946
Accounts and notes receivable		14,447
Contributions receivable, net		38,690
Inventories		1,652
Investments		1,210,113
Funds held in trust by others		479,413
Assets restricted to investment in plant		91
Land, buildings and equipment, net		347,401
Total assets	$	2,101,753
Liabilities:		
Accounts and other payables	$	12,627
Accrued compensation		5,207
Student and other deposits		304
Deferred revenue		1,407
U.S. Government grants refundable		731
Annuity obligations		29,334
Asset retirement obligations		457
Capital lease obligations		774
Long-term debt		201,062
Postretirement benefit obligations		23,212
Total liabilities		275,115
Net assets:		
Without donor restrictions		370,068
With donor restrictions		1,456,569
Total net assets		1,826,637
Total liabilities and net assets	$	2,101,752

Operating Results

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

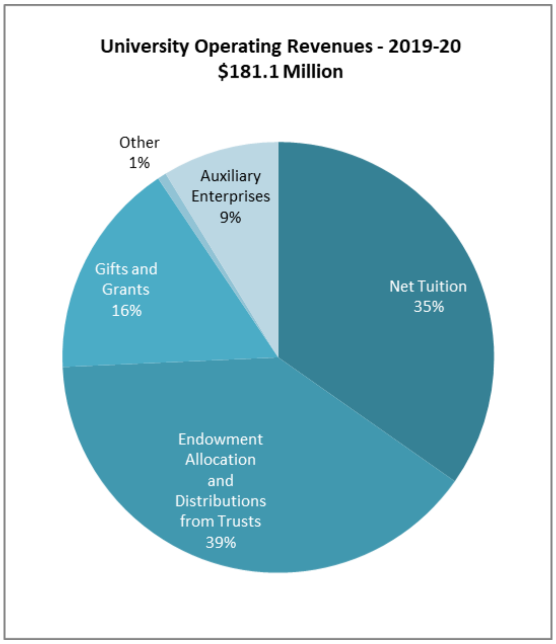

Figure 5

Tuition remains a vital source of operational support; however, it is important to understand the context around costs, stated tuition and net tuition. In 2019-20, the University incurred a cost on average of $65,183 per student for educational and student services. The stated tuition and mandatory fees rate was $54,830 and the average tuition and fees paid by families after financial aid was just $27,645. Every student received a subsidy toward their education of at least $10,353, 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 2019-20, net tuition revenues increased by 1.7% to $62.9 million. This gain is largely attributable to an increase in overall enrollment at the University for 2019-20 over 2018-19. While financial aid continues to be a significant priority for the University, it is recognized that until there is additional endowment support, the University will need to continue to be need-aware on admission decisions for the last 5 - 10% of the entering class each year. Over the long-term as we aspire to 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, 2020
($000s)

Revenues:		
Tuition and fees (net of $53,318 for student financial aid)	$	62,940
Endowment return allocated to operations		55,285
Income from funds held in trust by others		16,311
Contributions and grants		29,545
Auxiliary enterprises (net of $3,226 of aid)		15,825
Other		1,194
Total	$	181,100
Expenses:		
Instructional	$	80,141
Academic support		21,352
Student services		14,994
Institutional support		23,893
Financial aid		6,543
Auxiliary enterprises		27,498
Total	$	174,421
Operating surplus	$	6,679
Decrease in net assets from nonoperating activities		(62,782)
Change in net assets	$	(56,103)

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 ($53.32 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $3.23 million. Finally, within the Expenses section, there is a line item for Financial Aid that totals $6.54 million (this amount represents awards that exceed tuition, room and board and is consolidated in the Academic Support line of the official statements). On a combined basis, student financial aid awarded by the University in 2018-19 was $63.1 million reaching 54% 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 39.5% of the operating revenues in 2019-20, at $71.6 million. This source has grown in importance as a portion of the revenue stream (See Fig. 6). As a result, diligence of management of the underlying assets and considerations of payout allocation models are as important, if not more important, than a decade ago. In 2019-20, 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 4.77%. Law School endowments retained the supplemental increased payout adopted by the Board of Trustees for a fifth year at 6.5%. It is planned that the Law School will be weaned from this supplemental payout by the 2021-22 year.

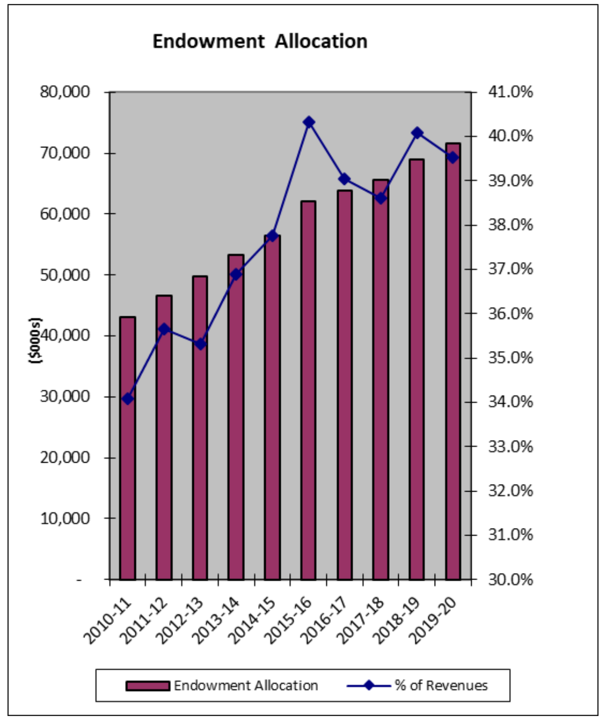

Figure 6

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 2019-20, the Annual Fund yielded a $10.45 million result, the third highest total in its history. In light of the challenges that Annual Funds across the country have experienced in recent years, the University has made the decision to allow for directed giving as part of the Annual Fund campaign in 2020-21. It is hoped that this change will result in increased giving over the long-term while maintaining strong participation of the alumni in the University's giving programs.

These gifts without restrictions underwrite all aspects of University life. In the aggregate, Washington and Lee received $29.5 million in expendable contributions and grants in 2019-20 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 $619 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 over 58% of total expenses. Fig. 7 also demonstrates that only 13.7% of expenditures go toward administration, including fundraising. 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 (59.0% versus 50.8%). The University's aggregate expenses per student, however, fall below the average expense per student of the peers by $9,500.

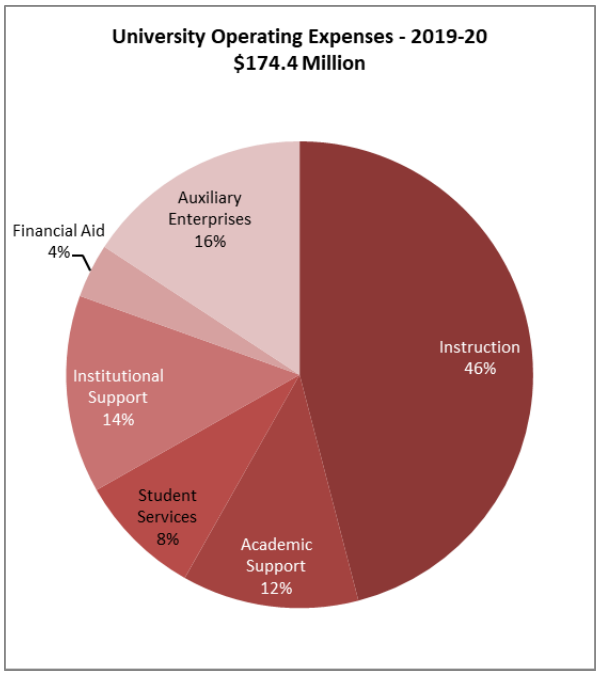

Figure 7

It is also worth noting that this operational 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 as a way to compare schools. For fiscal year 2019 (the most recent with comparative information), Washington and Lee posted a ratio of 0.209. This was the lowest among the Top-25 liberal arts institutions as defined by U.S. News where the mean of the group was 0.316.

Results from Operations reflect an operating surplus of $6.679 million versus an operating deficit of $1.098 million in 2019. This surplus resulted from the strength of giving in 2019-20 even though it saw total student revenues decline with the room and board refunds of $5.2 million provided with the need to shift to virtual learning in March.

As we have examined the construction of the operating budget, one area that we recognize as not yet an industry best practice is the lack of budgeting for depreciation. This 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 $18.44 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.

Outlook

In building the 2020-21 operating budget, the University anticipated that results for the year would yield a significant operating deficit. However, with the rebounds in the investment markets in the second quarter of 2020, the budget picture has gotten brighter. The challenges of being able to have students continue to be on campus and the uncertainty of the environment related to racial justice, institutional history and the institution's namesakes lead to greater uncertainty than normal around the year's financial operating result. In spite of these, the University continues to keep focus on the important objectives of the strategic plan in advancing the institution and its ability to serve its students.

Through focus on the strategic plan we will ensure 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; and the continuation in the exploration on ways to ensure that students not only succeed but thrive.

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Independent Auditors' Report

The Board of Trustees
The Washington and Lee University:

Report on the Financial Statements

We have audited the accompanying financial statements of The Washington and Lee University (the University), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Washington and Lee University as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Costs, an amendment of Topic 715, Compensation – Retirement Benefits*. As part of our audit of the 2020 financial statements, we also audited the adjustments described in Note 2(r) that were applied to adopt ASU 2017-07 retrospectively in the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

Richmond, Virginia
October 26, 2020

THE WASHINGTON AND LEE UNIVERSITY

Statement of Financial Position

June 30, 2020
(with comparative information as of June 30, 2019)

(In thousands)

Assets		2020	2019
Cash and cash equivalents	$	9,946	18,475
Accounts receivable and other assets, net		10,248	7,753
Notes receivable, net		4,198	4,185
Contributions receivable, net		38,690	41,657
Inventories		1,652	1,615
Investments		1,210,113	1,214,204
Funds held in trust by others		479,413	533,958
Unspent bond proceeds		—	5,404
Assets restricted to investment in land, buildings, and equipment		91	546
Land, buildings, and equipment, net		347,401	333,638
Total assets	$	2,101,752	2,161,435
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	12,627	13,217
Accrued compensation		5,207	4,416
Student and other deposits		304	255
Deferred revenue		1,407	1,554
U.S. government grants refundable		731	1,179
Split interest agreement obligations		29,334	31,508
Asset retirement obligations		457	465
Capital lease obligations		774	255
Long-term debt		201,062	203,766
Postretirement benefit obligation		23,212	22,080
Total liabilities		275,115	278,695
Commitments and contingencies			
Net assets:			
Without donor restrictions		370,068	374,213
With donor restrictions		1,456,569	1,508,527
Total net assets		1,826,637	1,882,740
Total liabilities and net assets	$	2,101,752	2,161,435

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY

Statement of Activities

Year ended June 30, 2020
(with summarized comparative information for the year ended June 30, 2019)

(In thousands)

	2020 Without donor restrictions	2020 With donor restrictions	2020 Total	2019 Total
Operating revenues and gains:				
Tuition and fees (net of $53,318 in 2020 and $50,395 in 2019 for student financial aid)	$ 62,940	—	62,940	61,876
Endowment return allocated to operations	46,607	8,678	55,285	53,150
Other investment income	691	171	862	1,441
Distributions from funds held in trust by others	16,275	36	16,311	15,762
Contributions	22,366	5,057	27,423	16,852
Auxiliary enterprises (net of $3,226 in 2020 and $3,443 in 2019 for student financial aid)	15,825	—	15,825	20,912
Governmental and other grants	—	2,122	2,122	981
Other	305	27	332	988
Net assets released from restrictions	14,032	(14,032)	—	—
Total operating revenues and gains	179,041	2,059	181,100	171,962
Operating expenses:				
Instruction	80,141	—	80,141	80,380
Academic support	27,895	—	27,895	25,759
Student services	14,994	—	14,994	15,416
Institutional support	23,893	—	23,893	22,213
Auxiliary enterprises	27,498	—	27,498	29,292
Total operating expenses	174,421	—	174,421	173,060
Change in net assets from operating activities	4,620	2,059	6,679	(1,098)
Nonoperating activities:				
Investment return, net of amount allocated to operations	(3,714)	(20,125)	(23,839)	3,352
Change in value of funds held in trust by others	—	(54,545)	(54,545)	59,869
Split interest agreements, net	(15)	240	225	(2,743)
Contributions	—	19,714	19,714	11,014
Net assets released for fixed asset acquisitions	584	(584)	—	—
Postretirement charges other than service cost and other actuarial changes	(1,656)	—	(1,656)	(2,498)
Other, net	(3,964)	1,283	(2,681)	(50)
Total nonoperating activities	(8,765)	(54,017)	(62,782)	68,944
Change in net assets	(4,145)	(51,958)	(56,103)	67,846
Net assets:				
Beginning of year	374,213	1,508,527	1,882,740	1,814,894
End of year	$ 370,068	1,456,569	1,826,637	1,882,740

See accompanying notes to consolidated financial statements.

THE WASHINGTON AND LEE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2020
(with comparative information for the year ended June 30, 2019)

(In thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	(56,103)	67,846
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Net realized and unrealized gains on investments		(27,197)	(51,527)
Depreciation and amortization		18,439	18,565
Loss on extinguishment of long-term debt		2,363	—
Loss on disposal of fixed assets		320	89
Contributions restricted for long-term investment in endowment and plant		(26,248)	(20,623)
Interest and dividends restricted for long-term investment		(626)	(838)
Changes in assets and liabilities:			
Accounts receivable and other assets, net		(2,508)	625
Contributions receivable, net		2,966	6,594
Inventories		(37)	57
Funds held in trust by others		54,545	(59,860)
Accounts and other payables		344	(274)
Student and other deposits		49	(739)
Deferred revenue		(147)	76
U.S. government grants refundable		(448)	31
Split interest agreement obligations		1,217	2,469
Postretirement benefit obligations		1,132	2,030
Net cash and cash equivalents used in operating activities		(31,939)	(35,479)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(32,417)	(30,501)
Proceeds from sales of land, buildings, and equipment		4	7
Purchases of investments restricted to land, buildings, and equipment		(6,028)	(28,168)
Proceeds from sale of investments		388,563	270,573
Purchases of investments		(345,433)	(208,728)
Net cash and cash equivalents provided by investing activities		4,689	3,183
Cash flows from financing activities:			
Principal payments on capital lease obligations		(196)	(451)
Interest and dividends restricted for long-term investment		603	540
Proceeds from contributions restricted for long-term investment in endowment and plant		26,223	20,685
Payments of debt issuance costs		(334)	(443)
Payments on split interest agreements		(3,298)	(3,323)
Proceeds from issuance of long-term debt		37,710	51,186
Principal payments on long-term debt		(41,987)	(33,085)
Net cash and cash equivalents provided by financing activities		18,721	35,109
Net (decrease) increase in cash and cash equivalents		(8,529)	2,813
Cash and cash equivalents:			
Beginning of year		18,475	15,662
End of year	$	9,946	18,475
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	9,068	9,563

Noncash investing and financing activities, in thousands:
At June 30, 2020 and 2019, $1,985 and $2,127, respectively, of fixed asset purchases were included in accounts and other payables.
For the years ending June 30, 2020 and 2019, the University incurred capital lease obligations of $715 and $0, respectively, for equipment leases.

See accompanying notes to consolidated financial statements.

(1) Description of Organization

The Washington and Lee University (the University) is a private, liberal arts university in Lexington, Virginia. Founded in 1749; it is the ninth oldest institution of higher learning in the nation. The University 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 the University. The University 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 400 law students.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

The financial statements of the University have been prepared on the accrual basis of accounting.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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.

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.

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 statement of activities and are, therefore, reflected as with donor restrictions net assets in the statement of financial position.

(d) Summarized Comparative Information

The statement of activities for the year ended June 30, 2020 is presented with certain summarized comparative information for the year ended June 30, 2019 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2019 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 net realized value 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, and 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 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 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 statement of financial position and the income (including unrealized appreciation and depreciation) is recorded in the 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 U.S. GAAP, 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 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 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 statement of financial position. The University has

(Continued)

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, 2020 and 2019, respectively.

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 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 statement of financial position.

(k) Tuition and Fees and Auxiliary Revenue

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration expected to be received 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 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 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 for the years ended June 30, 2020 and 2019 was (in thousands):

		2020	2019
Undergraduate	$	96,174	91,952
Law		20,000	19,287
Other		84	1,032
Less student financial aid		(53,318)	(50,395)
Total	$	62,940	61,876

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2020 and 2019 (in thousands):

		2020	2019
Residence and dining services, net of student financial aid	$	11,486	15,934
Retail operations and other auxiliary services		4,339	4,978
Total	$	15,825	20,912

(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 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 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 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.

(Continued)

(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 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 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 financial statements. Accordingly, no provision for income taxes has been reflected in the financial statements.

(p) Fair Value Measurements

Certain assets and liabilities are reported at fair value in the 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 February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will replace most existing lease guidance in U.S. GAAP when it becomes effective for the University in the 2021-2022 fiscal year. The University is currently assessing the impact that ASU 2016-02 will have on its 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 2021. The University is currently assessing the impact that ASU 2016-15 will have on its 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. The University has adopted this standard for fiscal year 2020 with no material impacts to the financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, an amendment of Topic 715, *Compensation – Retirement Benefits*. The amendment in ASU 2017-07 requires that an employer disaggregate the service cost component from other components of net periodic benefit cost in the income statement. It requires the service cost component to be presented with other current compensation costs for the related employees in the operating section of the income statement. Other components of net periodic benefit costs are required to be presented in nonoperating activities. The new guidance is to be applied retrospectively for income statement effects and prospectively for balance sheet effects. It does not change the rules over how costs are measured. The University adopted ASU 2017-07 for the fiscal year ended June 30, 2020, which resulted in a reclassification of $1,233,000 from operating expenses to postretirement charges other than service cost and other actuarial changes within nonoperating activities (see Note 13) for the year ended June 30, 2019.

(Continued)

In August 2018, the FASB issued ASU 2018-15, *Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in ASU 2018-15 require implementations costs of a cloud computing arrangement that is a service contract to follow the internally developed software guidance in accordance with ASC 350-40, *Internal-Use Software*. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The guidance also clarifies the presentation requirements for reporting such costs in the entity's financial statements. Entities may elect to apply this guidance either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The University early adopted this standard for the fiscal year ended June 30, 2020 and has elected to apply this guidance prospectively.

(s) Reclassifications

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

(3) Liquidity and Availability

As of June 30, 2020, 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 at June 20, 2020 and 2019 (in thousands):

		2020	2019
Cash and cash equivalents	$	9,946	18,475
Accounts and other receivables		4,463	2,175
Contributions receivable		10,932	10,972
Investments		4,498	7,228
Endowment return allocation		55,285	53,150
Total	$	85,124	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, 2020 and 2019.

In addition, for the 12 months beginning June 30, 2019, the University had assets available from restricted financial assets to meet expected construction costs of $5,950,000.

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, 2020 and 2019 (in thousands):

	Maturity	Interest rates	2020	2019
Student financial aid:				
Federally funded aid, net of allowance for doubtful accounts of $288 and $287, respectively	Up to 10 years	3% to 5%	$ 509	708
University funded aid, net of allowance for doubtful accounts of $677 and $678, respectively	Up to 10 years	3% to 8%	3,565	3,337
Other notes:				
Miscellaneous notes	Various	Various	124	140
			$ 4,198	4,185

(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, 2020 and 2019 (in thousands):

	2020	2019
Less than one year	$ 15,198	14,945
One year to five years	24,031	27,603
Over five years	588	1,032
Total contributions receivable, gross	39,817	43,580
Less allowance for uncollectible contributions	(394)	(424)
Total contributions receivable, net of allowance	39,423	43,156
Discount (rates ranging from 0.18% to 4.89%)	(733)	(1,499)
Total	$ 38,690	41,657

(6) Land, Buildings, and Equipment

Land, buildings, and equipment, net at June 30, 2020 and 2019 consist of the following (in thousands):

		2020	2019
Land	$	6,124	6,124
Land improvements		23,059	22,731
Buildings and improvements		496,366	440,733
Equipment		62,803	62,851
Art properties		5,030	4,864
		593,382	537,303
Less accumulated depreciation and amortization		(250,484)	(237,657)
		342,898	299,646
Construction in progress		4,503	33,992
Total	$	347,401	333,638

(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, 2020 and 2019 for each class of net asset is as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
2020:				
Net assets:				
Investment pool	$	261,409	893,494	1,154,903
Annuity and life income		—	47,943	47,943
Other		7,267	—	7,267
Investments as of June 30, 2020	$	268,676	941,437	1,210,113

		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

Investments are comprised of the following at June 30, 2020 and 2019 (in thousands):

		2020	2019
Short-term investments	$	41,377	21,369
Equities		116,165	130,120
Fixed income		40,297	51,329
Real assets		53,656	52,953
Hedge funds		2,327	2,315
Mortgage loans to faculty and staff		52,656	52,448
Multi-Asset Class (see below) *		774,908	790,226
Private equity/venture capital		128,727	113,444
Total	$	1,210,113	1,214,204

* 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 130 investment managers.

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

2020		Without donor restrictions	With donor restrictions	Total
Interest and dividend income	$	4,209	902	5,111
Net appreciation (depreciation) in fair value of investments, including investment expenses of $7,148		39,375	(12,178)	27,197
Total investment return		43,584	(11,276)	32,308
Less:				
Investment return available under spending policy		(46,607)	(8,678)	(55,285)
Other investment returns		(691)	(171)	(862)
Investment return in excess of amount available under spending policy	$	(3,714)	(20,125)	(23,839)

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

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% of the University's endowment funds were held at Makena as of June 30, 2020 and 2019.

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, 2020 and 2019 was allocated across the following asset classes as follows:

	2020	2019
Equity	37 %	37 %
Real estate	9	11
Private equity	28	22
Natural resources	6	7
Absolute return	4	11
Fixed income	14	10
Cash	2	2

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, 2020, as well as liquidity and funding commitments for those investments (in thousands):

	Fair value	Unfunded commitments	Redemption frequency (if currently available)	Redemption notice period
Equities	$ 17,594	—	*	*
Real assets	49,692	37,118	*	*
Multi-Asset Class	774,908	—	Annual	1 year
Private equity/venture capital	128,727	102,872	*	*

* 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.

- **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, 2020 (in thousands):

	June 30, 2020	Fair value measurements at reporting date using			NAV[1]
		Level 1	Level 2	Level 3	
Assets:					
Investments:					
Short-term investments	$ 41,377	40,050	1,327	—	—
Equities	116,165	98,571	—	—	17,594
Fixed income	40,297	34,442	5,535	320	—
Real assets	53,656	986	2,978	—	49,692
Hedge funds	2,327	2,327	—	—	—
Mortgage loans to staff and fraternities	52,656	—	52,656	—	—
Multi-Asset Class	774,908	—	—	—	774,908
Private equity/venture capital	128,727	—	—	—	128,727
Total investments	1,210,113	176,376	62,496	320	970,921
Funds held in trust by others	479,413	—	—	479,413	—
Total assets	$ 1,689,526	176,376	62,496	479,733	970,921

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 statement of financial position.

There were no significant transfers between investment levels for the year ended June 30, 2020.

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 statement of financial position.

There were no significant transfers between investment levels for the year ended June 30, 2019.

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, 2020 and 2019 (in thousands):

		Investments	Funds held in trust by others	Total
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
Net realized and unrealized losses		—	(38,109)	(38,109)
Net maturities		(51)	—	(51)
Contributions		2	—	2
Distributions		—	(16,436)	(16,436)
Ending balance at June 30, 2020	$	320	479,413	479,733

(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, 2020, the University holds 1,423 endowment funds, of which 1,314 are true endowments (restricted by the donor), six are term endowments (restricted by the donor and the principal may be spent) and 103 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, 2020 (in thousands):

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	889,923	889,923
Board-designated endowment funds		260,827	—	260,827
Total endowed net assets	$	260,827	889,923	1,150,750

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

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
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
Investment return:				
Investment income		171	212	383
Net appreciation		8,315	24,957	33,272
Contributions and pledge payments		7,343	22,687	30,030
Appropriation for expenditure		(11,544)	(43,741)	(55,285)
Endowment net assets, June 30, 2020	$	260,827	889,923	1,150,750

(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 $349,000 and $64,000 as of June 30, 2020 and 2019, 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 4.77% and 4.68% for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the fair value of the University's interest was reported by the trustees as $435,953,000 and $491,658,000, respectively. During the years ended June 30, 2020 and 2019, the University received distributions of $15,361,000 and $14,999,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2020 and 2019, the University maintained an interest in 35 other trusts with fair values of the University's interest, as reported by the trustees of approximately $43,460,000 and $42,300,000, respectively, and received distributions for the years ended June 30, 2020 and 2019 of $950,000 and $763,000, respectively.

(11) Long-Term Debt

Long-term debt consists of the following obligations at June 30, 2020 and 2019 (in thousands):

	Final maturity	Interest rates	2020	2019
Virginia College Building Authority (VCBA):				
1998 Note, includes unamortized premium of $584 and $663, and unamortized debt issuance cost of $185 and $203, respectively (A)	January 2031	5.03%–5.05%	$ 52,604	52,665
2001 Note, includes unamortized premium of $1,306 and $1,406, and unamortized debt issuance cost of $134 and $144, respectively (B)	January 2034	5.00%–5.75%	28,507	32,078
2015A Note, includes unamortized premium of $4,017 and $4,179 and unamortized debt issuance cost of $255 and $266, respectively (C)	January 2040	2.25%–5.00%	32,777	33,729
Industrial Development Authority of the City of Lexington:				
2013 Note, includes unamortized premium of $0 and $279, and unamortized debt issuance cost of $0 and $240, respectively (D)	January 2043	4.88 %	—	34,999
2018A Note, includes unamortized premium of $4,949 and $5,125 and issuance cost of $316 and $328 (E)	June 2048	5.00 %	34,778	35,287
2018B Note, includes unamortized issuance cost of $98 and $102 (F)	June 2043	Variable	15,012	15,008
2019 Note, includes unamortized issuance cost of $326(G)	January 2043	3.38 %	37,384	—
			$ 201,062	203,766

(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 2040.

(D) These bonds were refunded from the proceeds of the 2019 series bonds in December. The refunding resulted in a $2,363,000 loss on redemption as noted in the Statement of Cash Flows. This is included in nonoperating activities on the Statement of Activities.

(E) 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.

(F) 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, 2020 ranged from 0.73% to 2.49%.

(G) In December 2019, the Lexington Authority issued revenue bonds in the amount of $37,710,000 known as Series 2019 Bonds, (1) refunding all of the Series 2013 Bonds, and (2) 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 July 2020 and continuing until maturity in January 2043.

Aggregate principal payments due for the next five fiscal years are: 2021 – $5,235,000; 2022 – $5,420,000; 2023 – $5,685,000; 2024 – $5,965,000; 2025 – $6,285,000; and thereafter – $162,930,000.

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, 2020, the University had $15,000,000 available under this facility.

(12) Net Assets

(a) Net assets at June 30, 2020 were as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Operations	$	(2,930)	23,754	20,824
Student loan funds		—	5,797	5,797
Net investment in plant		134,401	—	134,401
Physical plant acquisitions		—	91	91
Quasi endowment funds		260,827	—	260,827
Donor restricted endowment		—	889,923	889,923
Contributions receivable		411	38,969	39,380
Split-interest agreements		571	18,622	19,193
Trust held by others		—	479,413	479,413
Post-retirement		(23,212)	—	(23,212)
Total	$	370,068	1,456,569	1,826,637

(b) 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

(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, 2020 were as follows (in thousands):

Operations:		
Financial aid	$	3,142
Program support		4,681
Other		665
Net investment in plant		5,544
		14,032
Nonoperations:		
Net assets released for fixed asset acquisitions		584
Total	$	14,616

(13) Expenses

Expenses for the year ended June 30, 2020 were incurred for the following (in thousands):

	Salaries, wages and benefits	Supplies and services	Cost of sales	Deprecation and amortization	Interest	Total operating expenses	Net periodic postretirement benefit cost excluding service cost	Total expenses by function
Instruction and research	$ 58,875	8,704	—	8,980	3,582	80,141	—	80,141
Academic support	14,369	11,176	—	2,003	347	27,895	—	27,895
Student services	9,771	3,968	19	730	506	14,994	—	14,994
Institutional support	16,035	6,927	1	789	141	23,893	1,151	25,044
Auxiliary enterprises	9,345	4,088	4,572	6,269	3,224	27,498	—	27,498
Total	$ 108,395	34,863	4,592	18,771	7,800	174,421	1,151	175,572

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 operating expenses	Net periodic postretirement benefit cost excluding service cost	Total expenses by function
Instruction and research	$ 57,355	10,670	1	8,961	3,393	80,380	—	80,380
Academic support	13,730	9,732	—	1,998	299	25,759	—	25,759
Student services	9,441	4,652	12	729	582	15,416	—	15,416
Institutional support	14,618	6,623	—	787	185	22,213	1,233	23,446
Auxiliary enterprises	9,400	4,118	5,300	6,256	4,218	29,292	—	29,292
Total	$ 104,544	35,795	5,313	18,731	8,677	173,060	1,233	174,293

(14) Retirement Plans

Academic and nonacademic personnel of the University are included in the 403(b) contributory retirement plans 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 $6,594,000 and $6,503,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 totaled $150,000 and $131,000, 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, 2020 and 2019 were as follows (in thousands):

		2020	2019
Service cost (benefits attributed to employee service during the year)	$	615	536
Interest cost on accumulated postretirement benefit obligation		721	803
Amortization of prior service cost		430	430
Net periodic postretirement benefit cost	$	1,766	1,769

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, 2020 and 2019 was 2.50% and 3.25%, respectively. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 7.5% in 2020, 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, 2020 and 2019 (in thousands):

		2020	2019
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	22,080	20,050
Service cost		615	536
Interest cost		721	803
Actuarial loss		935	1,695
Net benefits paid		(1,139)	(1,004)
Accumulated benefit obligation, end of year	$	23,212	22,080
Amount not yet recognized in net periodic benefit cost and included in net assets without donor restrictions:			
Net actuarial loss	$	1,326	391
Prior service cost		1,262	1,691
	$	2,588	2,082

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2021 – $1,402,000; 2022 – $1,541,000; 2023 – $1,687,000; 2024 – $1,795,000; and 2025 – $1,794,000. An additional $9,885,000 is expected to be paid for the fiscal years 2026 through 2030.

Total employer and participant contributions are $1,139,000 and $107,000, respectively, for the year ended June 30, 2020. Total benefits paid for the year ended June 30, 2020 are $1,246,000. 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. The expense discount rate for the years ended June 30, 2020 and 2019 were 3.25% and 4.00%, respectively.

(16) Commitments

The University's contractual commitments for capital expenditures totaled approximately $8,390,000 at June 30, 2020, and were comprised of the following (in thousands):

Athletic facilities upgrades	$	3,693
Williams School expansion		2,886
Facilities maintenance and utilities		1,013
Other		798
	$	8,390

(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 72% and 76% of total funds held in trust by others for the periods ended June 30, 2020 and 2019, 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 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) COVID-19 Pandemic

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19 or Pandemic) a worldwide pandemic. As a result of the Pandemic, the University decided to close the campus effective March 13, 2020. Due to this closure, the University issued refunds to students in an amount representing 30% of room and board charges for the winter and spring terms. These refunds amounted to $4,977,000 and resulted in a reduction of room and dining revenue for the fiscal year ended June 30, 2020. COVID-19 impacted various parts of the University's fiscal year 2020 operations and financial results, including the loss of auxiliary revenues and costs for increased use of technology. Management believes the University has taken appropriate actions to mitigate the negative impact.

In fiscal year 2020 the University was awarded $523,000 from the Higher Education Emergency Relief Fund (HEERF). The funds were used for emergency financial aid grants to students under the 18004(a)(1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The University disbursed $438,000 of the total received to students to assist in their transition to remote learning, with the remaining $85,000 to be disbursed in fiscal year 2021.

Also, as a part of the CARES Act, the University was eligible for the employee retention credit. The employee retention credit is a refundable payroll credit of 50% of qualified wages and healthcare paid for employees not required to work. Qualified wages are limited to $10,000 per effected employee. The University received $1,061,000 in a refundable payroll credit for the calendar quarter ended June 30, 2020.

The University is committed to the health and safety of its students, faculty, staff and local community. As a result, it has allocated significant resources to COVID-19 testing, personal protective equipment and education to reduce the transmission of the virus and provide a safe environment in which the University's students can live and learn in a residential setting.

(20) Subsequent Events

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2020 financial statements through October 26, 2020 the date the financial statements were available to be issued.