THE WASHINGTON AND LEE UNIVERSITY

Financial Statements

June 30, 2022

(With Independent Auditors' Report Thereon)

THE WASHINGTON AND LEE UNIVERSITY

June 30, 2022

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Management's Discussion and Analysis

Highlights from 2021-22

- University grants and scholarships were awarded to 53.8% of the undergraduates with the average institutional grant or scholarship award at $55,183. In 2011, the corresponding figures were 49.0% of undergraduates with average institutional award of $37,194.
- Endowment (including Trusts Held by Others) per Student finished the year at $894,509. At June 30, 2012, this value was $575,526. In other words, this increase in value of 55% has been captured over the past decade even with the endowment distributing between 4% and 5% of its value annually.
- The University opened the Center for Inclusion and Engagement as part of the renovation of Elrod Commons which included the renovation and relocation of Student Activities and Student Affairs offices along with the move of the Executive Committee to the Commons.
- Total endowment assets and funds held in trust by others ended the fiscal year at $1.998 billion, which reflected a decline from the high watermark of a year ago at $2.092 billion. The endowment managed by the University finished the year at $1.361 billion while trusts held by others increased to $636.9 million.
- Annual Fund grew to break the $10 million threshold following two years of declines. Total new gifts and pledges to the University were $39.1 million with $11.0 million in new endowment commitments.

A Year that Looked Mostly Normal

Following the 2020-21 year during which many activities were restricted or cancelled to mitigate the spread of COVID-19, and the need to move to operating in a virtual environment over the last six weeks of the academic year in 2019-20, 2021-22 appeared almost normal even with the need to maintain certain protocols to operate safely through the pandemic. The process to have a near normal experience was not without its challenges and sometimes led to exhaustion among faculty, staff and students, but by and large it was rewarding to see students experience a typical college life experience.

While challenging at times from a logistical standpoint, the return to a more typical environment proved beneficial from a budgetary standpoint as revenues improved substantially. Of course, with a year resembling a more normal year, we also saw growth in expenses, especially in areas where COVID-19 had limited activity (travel and large gatherings as examples) and as the University restored a number of budgetary cuts that were made to weather the COVID storm in 2020-21. In spite of the challenges of the investment markets, operating revenues grew by 8.4% in 2021-22 over the previous year's result, and expenses had a corresponding increase of 7.6%.

The University's overall balance sheet strength combined with the focus on the strategic plan positions the campus well within the higher education industry. The University continues to recruit the very best students and faculty while providing an environment in which students not only succeed but thrive. Today we stand with robust resources and greater opportunities than ever before and with a firm belief that the University will advance in the coming years to a place that is both stronger financially and 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 3.6% decline in total assets over the past year. From $2.582 billion as of June 30, 2021, the

University's assets dropped to $2.488 billion as of June 30, 2022. This decrease was almost entirely driven by the challenges of the investment markets where the internal endowment saw a -6.6% return for the year. This was partially counteracted by a strong return generated by our interest in Trusts Held by Others, most notably, the Lettie Pate Evans Restricted Fund. These trusts generated a +11.1% return for the year. Even with this decline in total assets in 2021-22, assets have grown by $853 million, or 52.1%, over the last decade. The major asset categories for the University are presented in Figure 1.

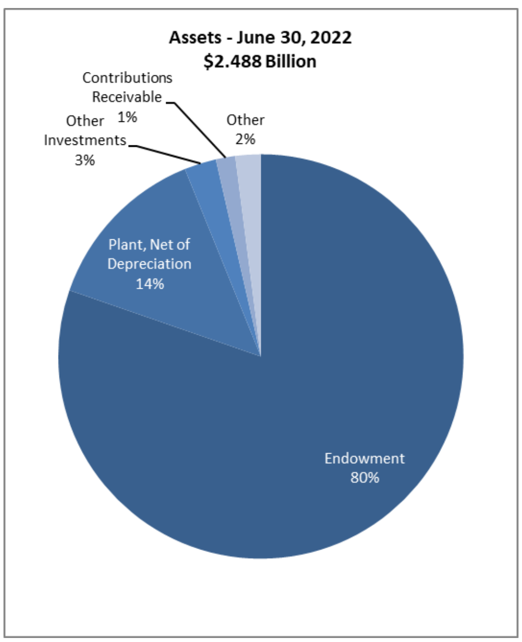

Figure 1

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 $1.998 billion as of June 30, 2022 erasing some of the significant gains achieved in the 2021 fiscal year. (See Fig. 2).

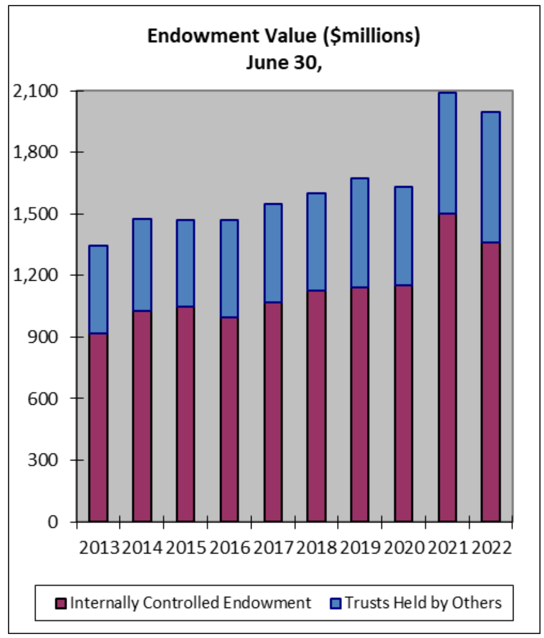

Figure 2

Investment returns for the internally managed endowment declined by 6.6% following a year in which they were up an astonishing +36.0%. This negative return coupled with the allocation from endowment for operating support of $58.7 million translated to a decline in the value of the endowment managed by the University from $1.50 billion at June 30, 2021 to $1.36 billion at June 30, 2022. The market value of Trusts Held by Others increased over the year primarily led by the growth in the value of the stock of The Coca-Cola Company within the Lettie Pate Evans Restricted Fund Trust. The trust experienced an increase in market value of $54.5 billion, a 10% increase over the year. The distributions from the Evans Trust as well as the thirty-five other trusts that the University benefits from grew as well by $636,000 to $17.31 million in 2021-22.

Returns on a nominal basis for endowment funds with external managers fell short of the University's long-term expected return (-6.6% actual versus 7.5% targeted). Over the longer term, however, the returns on a three- five- and ten-year basis have bettered this target as well as the Global 60/40 portfolio benchmark. While the one-year returns may disappoint, it is important to maintain a long-term perspective for endowment investments and maintaining a diverse portfolio to weather turbulent market periods.

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 2021-22 year, the University opened the Center of Inclusion and Engagement as part of a renovation of the student activities and student affairs areas within Elrod Commons. The renovations also included enhancements for student programming, renovated and relocated student affairs offices and the move of the E.C. suite from Early-Fielding to the Elrod Commons.

As we look ahead, the current strategic plan includes eight 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, 2022, contributions receivable were valued at $38.5 million. This is up from $34.4 million at June 30, 2021, reflecting the growth in commitments in support of the University's strategic plan. As we see continued fundraising momentum for the strategic plan, 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 $63.5 million at the end of this most recent fiscal year, down from $70.6 million at the end of fiscal year 2021. The decrease reflects the combination of market return and distributions netted by new additions.

Liabilities

On the other side of the ledger, the University has liabilities totaling $273.8 million. Four types of liabilities comprise 95% of this total: debt, future annuity payments, operating lease liabilities and postretirement benefits. (See Fig. 3)

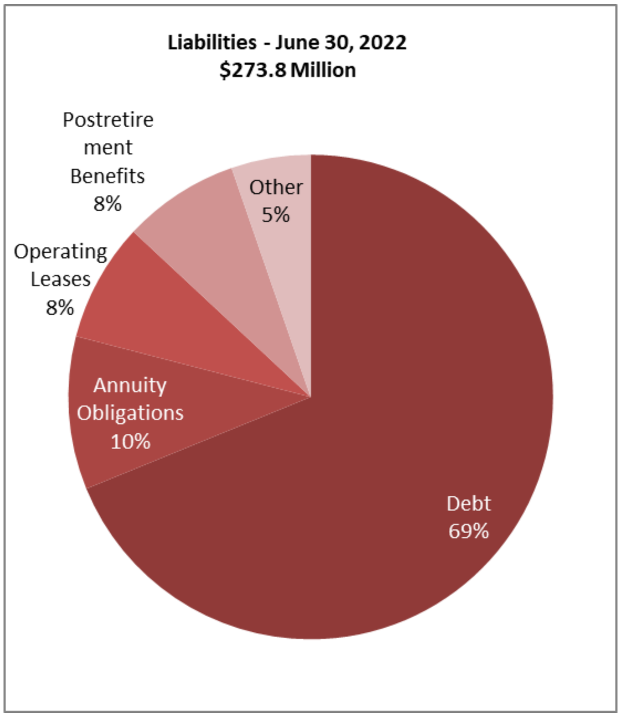

Figure 3

Debt: Washington and Lee University's largest liability is long-term debt that has been incurred over the years to support capital building projects. No new debt was taken on in the past year; however, the University did issue advanced refunding bonds in the year to retire the majority of the 2015A series bonds. Debt at the University now stands at $188.4 million. Over the past year, the University made $5.41 million of payments toward principal and $7.94 million in interest payments. Total debt is composed of seven different instruments, with five being tax-exempt issues through either the Virginia College Building Authority or the Lexington City Industrial Development Authority. Taxable debt represents 34.4% of the total outstanding debt. Of the outstanding debt at June 30, 2022, 92% is fixed rate and 8% 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 two oldest debt issues, the 1998 and 2001 VCBA Notes, totaling $72.7 million are noncallable.

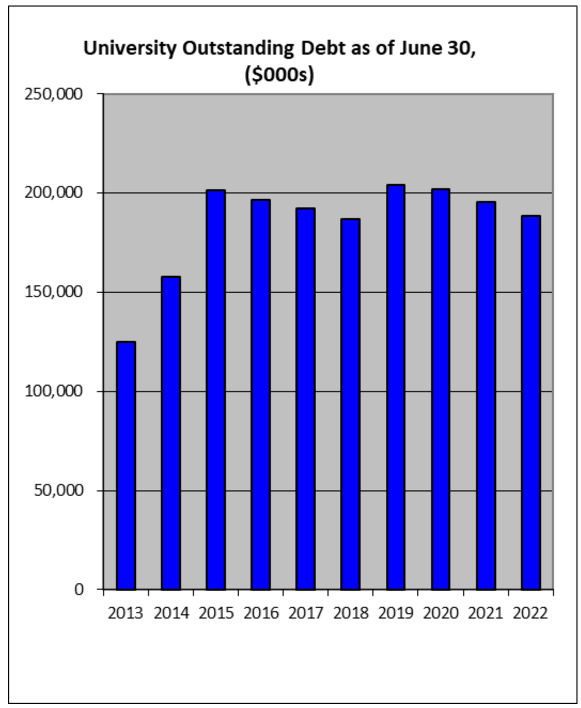

Figure 4

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 7.2% 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.

Operating Lease Liabilities: While not a part of the University's debt, the institution has entered into a number of operating leases (primarily related to lease of property that are used for offices and classrooms) which create a liability valued at $21.7 million as of June 30, 2022. There is an offsetting asset for the "right-of-use" of the facilities.

Future Annuity Payments: The split interest instruments mentioned above create a liability based upon expected future payments to the donor. As of June 30, 2022, this liability was recorded at $28.0 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 $21.2 million, down from $23.4 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 (104 such endowments today), investment returns and the development of reserves over the years. The University saw this class of net assets decrease by $32.9 million as a result of investment return and stands at $417.7 million at June 30, 2022.

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 (1,362 individual endowment accounts) and Trusts Held by Others (36 such instruments). The value of this net asset component also declined in 2021-22 from $1.850 billion to $1.797 billion. The decrease can almost be entirely explained by the weak investment returns experienced within the endowment 2022 fiscal year.

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

Summary
Statement of Financial Position
June 30, 2022 ($000s)

Assets:		
Cash and Cash Equivalents	$	14,006
Accounts and Notes Receivable		13,443
Contributions Receivable, net		38,495
Inventories		1,130
Investments		1,424,946
Funds Held in Trust by Others		636,891
Assets Restricted to Investment in Plant		2,252
Right-of-use assets, Operating Leases, net		19,530
Land, Buildings and Equipment, net		337,672
Total Assets	$	2,488,365
Liabilities:		
Accounts and Other Payables	$	7,261
Accrued Compensation		3,275
Student and Other Deposits		1,370
Deferred Revenue		1,407
U.S. Government Grants Refundable		320
Annuity Obligations		27,981
Operating Lease Liabilities		21,661
Other Obligations		860
Long-term Debt		188,447
Postretirement Benefit Obligations		21,249
Total Liabilities		273,831
Net Assets:		
Without Donor Restrictions		417,687
With Donor Restrictions		1,796,847
Total Net Assets		2,214,534
Total Liabilities and Net Assets	$	2,488,365

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.

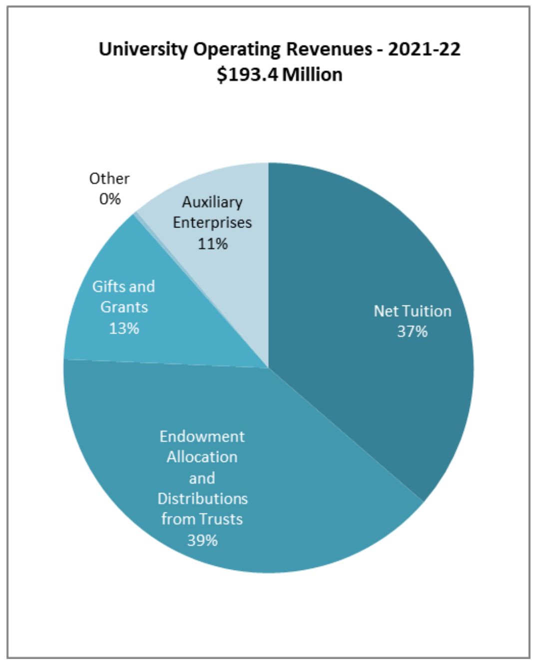

Figure 5

Tuition remains a vital source of operational support; however, it is important to understand the context around costs, stated tuition and fees and net tuition and fees. In 2021-22, the University incurred a cost on average of $89,080 per student for educational and student services. The stated tuition and mandatory fees were $75,650 and the average tuition and fees paid by families after scholarships and grants was just $43,665. Every student received a subsidy toward their education of at least $13,430, and for over one-half of the population, the subsidy was expanded through

(Continued)

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 2021-22, net tuition revenues increased by 7.5% to $70.3 million. This gain is largely attributable to growth in aggregate enrollment and the increase in tuition and fees for the year. 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 likely moderate. 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.

Summary
Statement of Activities
June 30, 2022 ($000s)

Revenues:		
Tuition and Fees (net of $57,773 for student financial aid)	$	70,293
Endowment Return Allocated to Operations		58,724
Income from Funds Held in Trust by Others		17,313
Contributions and Grants		24,835
Auxiliary Enterprises (net of $4,726 of aid)		21,549
Other		650
Total		193,364

Summary
Statement of Activities
June 30, 2022 ($000s)

Expenses:		
Instructional	$	81,934
Academic Support		28,093
Student Services		19,013
Institutional Support		24,696
Auxiliary Enterprises		30,688
Total		184,424
Operating Surplus		8,940
Decrease in Net Assets from Non-Operating Activities		(95,337)
Change in Net Assets	$	(86,397)

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 ($57.8 million); this is also the case with Auxiliary Enterprise revenues which reflect an aid discount of $4.7 million. Finally, within the Academic Support expenses, there is $3.4 million of Financial Aid expense (this amount represents awards that exceed tuition, room and board). On a combined basis, student financial aid awarded by the University in 2021-22 was $65.9 million reaching 54% of the undergraduate student population and over 90% of law students.

Endowment distributions, whether from the defined payout formula or allocations from Trusts Held by Others, accounted for 39.3% of the operating revenues in 2021-22, at $76.0 million. This source has grown in importance as a portion of the revenue stream (See Fig. 6). As a result, diligence in management of the underlying assets and considerations of payout allocation models are as important, if not more important, than a decade ago. In 2021-22, the University followed its normal spending formula of increasing unit endowment

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spending over the prior year by inflation plus one percent. This yielded a payout rate of 4.00%.

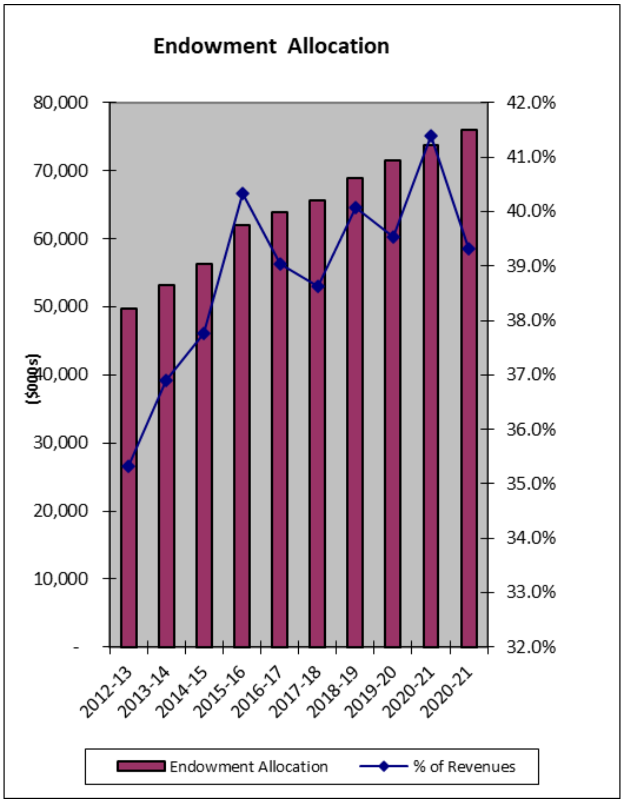

Figure 6

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 2021-22, the Annual Fund yielded a $10.0 million result, as it rebounded from the challenges of the environment relative to the University's name decision and the headwinds that Annual Funds across the country have experienced in recent years. The year was highlighted by undergraduate alumni, law alumni and friends of the University each surpassing their respective goals. 2022-23 will have as a focus efforts to build on this momentum while improving participation.

These gifts without restrictions underwrite all aspects of University life. In the aggregate, Washington and Lee received $24.8 million in expendable contributions and grants in 2021-22 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 $621 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 59.6% of total expenses. Fig. 7 also demonstrates that only 13.4% 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 (60.0% versus 50.0%). The University's aggregate expenses per student, however, fall below the average expense per student of the peers by $11,050.

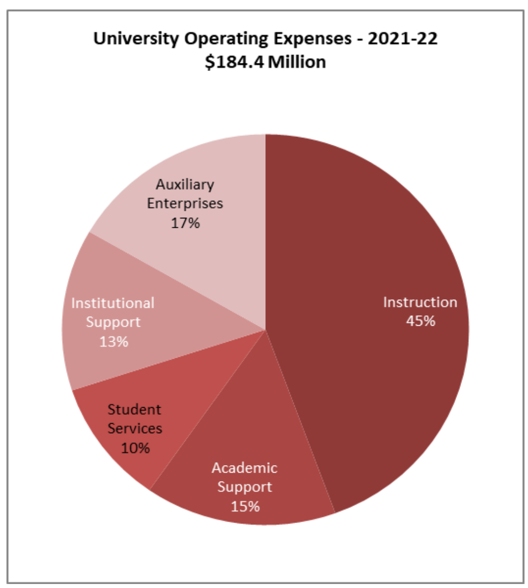

Figure 7

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 2021 (the most recent with comparative information), Washington and Lee posted a ratio of 0.25. This was the third lowest among the Top-25 liberal arts institutions as defined by U.S. News where the mean of the group was 0.35. For W&L, this ratio improved to .22 in fiscal year 2022.

Results from Operations reflect an operating surplus of $8.940 million versus an operating surplus of $7.082 million in 2021. This surplus resulted from the growth in revenues outpacing the growth in expenses as we moved closer to a post-pandemic environment.

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 $19.9 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 was intended to increase the annual allocation to Capital Reserves, the combination of which should be able to substitute for Depreciation budgeting. 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

As we turn attention to 2022-23, the University faces new economic challenges in the form of inflation and turbulent investment markets; however, we do so having navigated the challenges and constraints that were imposed by the COVID-19 pandemic. For many of us, this was and likely will have been the most significant work challenge that we will overcome in our lifetimes. By meeting that challenge and coming out from it in a stronger financial position, it helps to build the resolve to meet the next challenge.

With our continued focus on the implementation of 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 and understand their responsibility as a global citizen.

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Independent Auditors' Report

The Board of Trustees
The Washington and Lee University:

Opinion

We have audited the financial statements of The Washington and Lee University (the University), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the University's 2021 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Richmond, Virginia
October 27, 2022

THE WASHINGTON AND LEE UNIVERSITY

Statement of Financial Position

June 30, 2022
(with summarized comparative information as of June 30, 2021)

(In thousands)

Assets		**2022**	**2021**
Cash and cash equivalents	$	14,006	12,071
Accounts receivable and other assets, net		9,819	10,295
Notes receivable, net		3,624	3,816
Contributions receivable, net		38,495	34,380
Inventories		1,130	1,213
Investments		1,424,946	1,574,647
Funds held in trust by others		636,891	588,367
Assets restricted to investment in land, buildings, and equipment		2,252	1,771
Right-of-use assets, operating leases, net		19,530	12,225
Land, buildings, and equipment, net		337,672	343,714
Total assets	$	2,488,365	2,582,499
Liabilities and Net Assets			
Liabilities:			
Accounts and other payables	$	7,261	8,213
Accrued compensation		3,275	2,628
Student and other deposits		1,370	1,454
Deferred revenue		1,407	1,965
U.S. government grants refundable		320	514
Split interest agreement obligations		27,981	32,807
Operating lease liabilities		21,661	14,156
Other obligations		860	1,040
Long-term debt		188,447	195,374
Postretirement benefit obligation		21,249	23,417
Total liabilities		273,831	281,568
Commitments and contingencies			
Net assets:			
Without donor restrictions		417,687	450,631
With donor restrictions		1,796,847	1,850,300
Total net assets		2,214,534	2,300,931
Total liabilities and net assets	$	2,488,365	2,582,499

See accompanying notes to financial statements.

THE WASHINGTON AND LEE UNIVERSITY

Statement of Activities

Year ended June 30, 2022
(with summarized comparative information for the year ended June 30, 2021)

(In thousands)

	2022			2021
	Without donor restrictions	With donor restrictions	Total	Total
Operating revenues and gains:				
Tuition and fees (net of $57,773 in 2022 and $54,003 in 2021 for student financial aid)	$ 70,293	—	70,293	65,375
Endowment return allocated to operations	48,996	9,728	58,724	57,165
Other investment income (loss)	283	(226)	57	715
Distributions from funds held in trust by others	17,234	79	17,313	16,677
Contributions	13,643	7,787	21,430	18,247
Auxiliary enterprises (net of $4,726 in 2022 and $3,853 in 2021 for student financial aid)	21,549	—	21,549	17,424
Governmental and other grants	—	3,405	3,405	2,466
Other	318	275	593	347
Net assets released from restrictions	11,370	(11,370)	—	—
Total operating revenues and gains	183,686	9,678	193,364	178,416
Operating expenses:				
Instruction	81,934	—	81,934	76,311
Academic support	28,093	—	28,093	26,483
Student services	19,013	—	19,013	14,780
Institutional support	24,696	—	24,696	25,403
Auxiliary enterprises	30,688	—	30,688	28,357
Total operating expenses	184,424	—	184,424	171,334
Change in net assets from operating activities	(738)	9,678	8,940	7,082
Nonoperating activities:				
Investment return, net of amount allocated to operations	(39,402)	(124,143)	(163,545)	352,970
Change in value of funds held in trust by others	—	48,523	48,523	108,192
Split interest agreements, net	(14)	18	4	(10,262)
Contributions	—	17,663	17,663	17,236
Net assets released for fixed asset acquisitions	5,192	(5,192)	—	—
Postretirement charges other than service cost and other actuarial changes	1,418	—	1,418	(862)
Other, net	600	—	600	(62)
Total nonoperating activities	(32,206)	(63,131)	(95,337)	467,212
Change in net assets	(32,944)	(53,453)	(86,397)	474,294
Net assets:				
Beginning of year	450,631	1,850,300	2,300,931	1,826,637
End of year	$ 417,687	1,796,847	2,214,534	2,300,931

See accompanying notes to financial statements.

THE WASHINGTON AND LEE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2022
(with summarized comparative information for the year ended June 30, 2021)

(In thousands)

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	(86,397)	474,294
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:			
Net realized and unrealized loss (gain) on investments		108,855	(407,184)
Depreciation and amortization		19,922	19,192
Gain on extinguishment of long-term debt		(624)	—
Loss on disposal of fixed assets		53	—
Contributions restricted for long-term investment in endowment and plant		(20,074)	(18,310)
Interest and dividends restricted for long-term investment		(892)	(2,323)
Changes in assets and liabilities:			
Accounts receivable and other assets, net		674	335
Contributions receivable, net		(4,115)	4,310
Inventories		83	439
Funds held in trust by others		(48,524)	(108,954)
Accounts and other payables		71	(3,249)
Student and other deposits		(83)	1,150
Deferred revenue		(558)	558
U.S. government grants refundable		(194)	(217)
Split interest agreement obligations		(67)	9,719
Postretirement benefit obligations		(2,168)	205
Net cash and cash equivalents used in operating activities		(34,038)	(30,035)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, including interest capitalized		(15,012)	(17,764)
Proceeds from sales of land, buildings, and equipment		—	—
Purchases of investments restricted to land, buildings, and equipment		(6,946)	(5,415)
Proceeds from sale of investments		254,709	332,342
Purchases of investments		(209,606)	(283,293)
Net cash and cash equivalents provided by investing activities		23,145	25,870
Cash flows from financing activities:			
Principal payments on capital lease obligations		(166)	(198)
Interest and dividends restricted for long-term investment		892	2,323
Proceeds from contributions restricted for long-term investment in endowment and plant		21,875	16,506
Payments of debt issuance costs		(396)	—
Payments on split interest agreements		(4,359)	(7,106)
Proceeds from issuance of long-term debt		27,775	—
Principal payments on long-term debt		(32,793)	(5,235)
Net cash and cash equivalents provided by financing activities		12,828	6,290
Net increase in cash and cash equivalents		1,935	2,125
Cash and cash equivalents:			
Beginning of year		12,071	9,946
End of year	$	14,006	12,071
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	7,939	8,423

Noncash investing and financing activities, in thousands:
At June 30, 2022 and 2021, $8 and $178, respectively, of fixed asset purchases were included in accounts and other payables.

See accompanying notes to 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, postretirement 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 net assets with donor restrictions. 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, 2022 is presented with certain summarized comparative information for the year ended June 30, 2021 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, 2021 from which the summarized information was derived.

(e) Cash and Cash Equivalents

The University considers all highly liquid investments with an original maturity of three months or less 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). 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 non-trust 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 estimated the net realizable value of split interest agreement obligations and has concluded the carrying amounts approximate fair value. The discount rates used in calculation of split interest agreements ranged from 0.4% to 10.6% at June 30, 2022 and 2021.

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, 2022 and 2021 was (in thousands):

		2022	2021
Undergraduate	$	108,043	101,113
Law		19,685	18,227
Other		338	38
Less student financial aid		(57,773)	(54,003)
Total	$	70,293	65,375

Net auxiliary enterprises revenue consists of the following for the years ended June 30, 2022 and 2021 (in thousands):

		2022	2021
Residence and dining services, net of student financial aid	$	17,179	13,957
Retail operations and other auxiliary services		4,370	3,467
Total	$	21,549	17,424

(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 nonfinancial gifts 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. For the years ended June 30, 2022 and 2021, the University recognized nonfinancial gifts of $674,000 and $88,000, all of which consisted of equipment and art properties used to support the University's educational programs. The fair value of the contributed nonfinancial assets was determined using appraised values and there were no donor-imposed restrictions.

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 "re-designated 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.

(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 square footage to the functions utilizing the assets. 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.

(Continued)

(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.

(Continued)

(r) Recent Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires that a not-for-profit entity present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and also expands disclosures to include certain information about nonfinancial assets recognized for the periods presented. The University adopted ASU 2020-07 for the year ended June 30, 2022 and applied the guidance retrospectively. The adoption of this ASU did not have a significant impact on the University's financial statements and disclosures.

(s) Reclassifications

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

(3) Liquidity and Availability

As of June 30, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, were as follows (in thousands):

		2022	2021
Cash and cash equivalents	$	14,006	12,071
Accounts and other receivables		1,652	2,174
Contributions receivable		4,827	4,617
Investments		9,408	8,296
Expected endowment return allocation		58,724	57,165
Total	$	88,617	84,323

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, 2022 or 2021, respectively.

In addition, as of June 30, 2022, the University had assets available from restricted financial assets to meet expected construction costs of $2,252,000.

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 12.

(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, 2022 and 2021 (in thousands):

	Maturity	Interest rates		2022	2021
Student financial aid:					
Federally funded aid, net of allowance for doubtful accounts of $238 and $234, respectively	Up to 10 years	3% to 5%	$	170	329
University funded aid, net of allowance for doubtful accounts of $738 and $701, respectively	Up to 10 years	3% to 8%		3,400	3,395
Other notes:					
Miscellaneous notes	Various	Various		54	92
			$	3,624	3,816

(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, 2022 and 2021 (in thousands):

		2022	2021
Less than one year	$	17,756	16,319
One year to five years		21,333	18,650
Over five years		1,326	109
Total contributions receivable, gross		40,415	35,078
Less allowance for uncollectible contributions		(390)	(350)
Total contributions receivable, net of allowance		40,025	34,728
Discount (rates ranging from 0.07% to 4.89%)		(1,530)	(348)
Total	$	38,495	34,380

(Continued)

(6) Land, Buildings, and Equipment

Land, buildings, and equipment, net at June 30, 2022 and 2021 consist of the following (in thousands):

		2022	2021
Land	$	6,124	6,124
Land improvements		23,571	23,101
Buildings and improvements		506,148	499,495
Equipment		80,007	71,456
Art properties		5,426	5,212
		621,276	605,388
Less accumulated depreciation and amortization		(290,952)	(270,126)
		330,324	335,262
Construction in progress		7,348	8,452
Total	$	337,672	343,714

(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, 2022 and 2021 for each class of net asset is as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
2022:				
Net assets:				
Investment pool	$	301,006	1,065,299	1,366,305
Annuity and life income		—	47,941	47,941
Other		10,700	—	10,700
Investments as of June 30, 2022	$	311,706	1,113,240	1,424,946

		Without donor restrictions	With donor restrictions	Total
2021:				
Net assets:				
Investment pool	$	334,073	1,175,499	1,509,572
Annuity and life income		—	56,973	56,973
Other		8,102	—	8,102
Investments as of June 30, 2021	$	342,175	1,232,472	1,574,647

Investments are comprised of the following at June 30, 2022 and 2021 (in thousands):

		2022	2021
Short-term investments	$	11,638	30,978
Equities		147,560	170,723
Fixed income		51,220	67,307
Real assets		47,868	42,290
Hedge funds		435	355
Mortgage loans to faculty and staff		44,652	49,286
Multi-Asset Class (see below) *		918,746	1,014,111
Private equity/venture capital		202,827	199,597
Total	$	1,424,946	1,574,647

* 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):

2022		Without donor restrictions	With donor restrictions	Total
Interest and dividend income	$	2,377	1,714	4,091
Net depreciation in fair value of investments, including investment expenses of $11,403		(29,073)	(79,782)	(108,855)
Total investment return		(26,696)	(78,068)	(104,764)
Less:				
Investment return allocated under spending policy		(12,423)	(46,301)	(58,724)
Other investment returns		(283)	226	(57)
Investment return net of amount allocated to operations	$	(39,402)	(124,143)	(163,545)

2021		Without donor restrictions	With donor restrictions	Total
Interest and dividend income	$	2,127	1,539	3,666
Net appreciation in fair value of investments, including investment expenses of $9,026		82,676	324,508	407,184
Total investment return		84,803	326,047	410,850
Less:				
Investment return allocated under spending policy		(12,135)	(45,030)	(57,165)
Other investment returns		(537)	(178)	(715)
Investment return net of amount allocated to operations	$	72,131	280,839	352,970

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 three years, provides guidance on investment objectives, appropriate investment vehicles, asset allocation and spending policy for the endowment investments. Since 2007, the University has 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 88% and 85% of the University's endowment funds were held at Makena as of June 30, 2022 and 2021, respectively.

(Continued)

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 5 asset classes and over 30 sub-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, 2022 and 2021 was allocated across the following asset classes as follows:

	2022	2021
Equity	37 %	41 %
Real estate	16	13
Private equity	33	29
Fixed income	11	12
Cash	3	5

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, 2022 and 2021, as well as liquidity and funding commitments for those investments at June 30, 2022 (in thousands):

	Fair value		Unfunded	Redemption frequency (if currently	Redemption
	June 30, 2022	June 30, 2021	commitments	available)	notice period
Equities	$ 70,193	66,337	—	*	*
Real assets	44,375	38,412	21,269	*	*
Multi-Asset Class	918,746	1,014,111	4,234	Annual	1 year
Private equity/venture capital	202,827	199,597	100,016	*	*

* 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, 2022 (in thousands):

		June 30,	Fair value measurements at reporting date using			
		2022	Level 1	Level 2	Level 3	NAV[1]
Assets:						
Investments:						
Short-term investments	$	11,638	10,456	1,182	—	—
Equities		147,560	77,367	—	—	70,193
Fixed income		51,220	42,915	7,985	320	—
Real assets		47,868	631	2,862	—	44,375
Hedge funds		435	435	—	—	—
Mortgage loans to staff and fraternities		44,652	—	44,652	—	—
Multi-Asset Class		918,746	—	—	—	918,746
Private equity/venture capital		202,827	—	—	—	202,827
Total investments		1,424,946	131,804	56,681	320	1,236,141
Funds held in trust by others		636,891	—	—	636,891	—
Total assets	$	2,061,837	131,804	56,681	637,211	1,236,141

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 and there were no purchases or additions to Level 3 assets for the year ended June 30, 2022.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2021 (in thousands):

	June 30, 2021	Fair value measurements at reporting date using: Level 1	Level 2	Level 3	NAV[1]
Assets:					
Investments:					
Short-term investments	$ 30,978	14,952	16,026	—	—
Equities	170,723	104,386	—	—	66,337
Fixed income	67,307	62,318	4,669	320	—
Real assets	42,290	1,016	2,862	—	38,412
Hedge funds	355	355	—	—	—
Mortgage loans to staff and fraternities	49,286	—	49,286	—	—
Multi-Asset Class	1,014,111	—	—	—	1,014,111
Private equity/venture capital	199,597	—	—	—	199,597
Total investments	1,574,647	183,027	72,843	320	1,318,457
Funds held in trust by others	588,367	—	—	588,367	—
Total assets	$ 2,163,014	183,027	72,843	588,687	1,318,457

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 and there were no purchases or additions to Level 3 assets for the year ended June 30, 2021.

(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, 2022, the University holds 1,466 endowment funds, of which 1,356 are true endowments (restricted by the donor), six are term endowments (restricted by the donor and the principal may be spent) and 104 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, 2022 (in thousands):

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	1,060,987	1,060,987
Board-designated endowment funds		300,456	—	300,456
Total endowed net assets	$	300,456	1,060,987	1,361,443

Endowment net assets consist of the following at June 30, 2021 (in thousands):

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	1,170,820	1,170,820
Board-designated endowment funds		333,233	—	333,233
Total endowed net assets	$	333,233	1,170,820	1,504,053

Net assets for donor-restricted endowment funds held in perpetuity were $566,736,000 and $552,158,000 as of June 30, 2022 and 2021, respectively.

(Continued)

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2020	$	260,827	889,923	1,150,750
Investment return:				
Investment income		688	1,923	2,611
Net appreciation		83,170	306,591	389,761
Contributions and pledge payments		683	17,413	18,096
Appropriation for expenditure		(12,135)	(45,030)	(57,165)
Endowment net assets, June 30, 2021		333,233	1,170,820	1,504,053
Investment return:				
Investment income		298	1,048	1,346
Net depreciation		(22,259)	(78,456)	(100,715)
Contributions and pledge payments		1,607	13,876	15,483
Appropriation for expenditure		(12,423)	(46,301)	(58,724)
Endowment net assets, June 30, 2022	$	300,456	1,060,987	1,361,443

(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 $486,000 and $0 as of June 30, 2022 and 2021, 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 4.00% and 4.99% for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the fair value of the University's interest was reported by the trustees as $599,970,000 and $545,520,000, respectively. During the years ended June 30, 2022 and 2021, the University received distributions of $16,311,000 and $15,693,000, respectively, from the Lettie Pate Evans Foundation, Inc. Restricted Fund.

At June 30, 2022 and 2021, the University maintained an interest in 35 other trusts with fair values of the University's interest, as reported by the trustees of approximately $36,921,000 and $42,847,000, respectively, and received distributions for the years ended June 30, 2022 and 2021 of $1,107,000 and $984,000, respectively.

(11) Leases

The University determines if an arrangement is or contains a lease at inception of the contract. The right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The University uses the implicit rate noted within the contract. If not readily available, the University uses the risk-free rate corresponding to the term of the lease. A right-of-use asset and lease liability is not recognized for leases with an initial term of 12 months or less and lease expense is recognized for these leases on a straight-line basis over the lease term within operating expenses.

The University has various real estate operating leases for offices that expire in years through fiscal 2043. The terms of these leases vary and certain of these leases provide for increasing rent over the term of the lease. The University's operating leases had a weighted average discount rate of 1.91% and weighted average remaining term of 18.8 years as of June 30, 2022. The University has various finance leases of equipment that expire in years through fiscal 2025.

The components of lease expense for the fiscal year ended June 30, 2022 are as follows (in thousands):

	2022
Lease cost:	
Operating lease cost	$ 1,107
Finance lease cost:	
Amortization of right-of-use assets	156
Interest on lease liabilities	6
	$ 1,269

Future minimum lease payments and reconciliation to operating lease liabilities at June 30, 2022 are as follows (in thousands):

		Operating leases
2023	$	1,139
2024		1,182
2025		1,201
2026		1,249
2027		1,301
Thereafter		20,484
Total		26,556
Less present value discount		(4,895)
Lease liabilities	$	21,661

(12) Long-Term Debt

Long-term debt consists of the following obligations at June 30, 2022 and 2021 (in thousands):

	Final maturity	Interest rates		2022	2021
Virginia College Building Authority (VCBA):					
1998 Note, includes unamortized premium of $413 and $501, and unamortized debt issuance cost of $148 and $166, respectively (A)	January 2031	5.03%–5.05%	$	48,370	52,539
2001 Note, includes unamortized premium of $1,184 and $1,205, and unamortized debt issuance cost of $113 and $123, respectively (B)	January 2034	5.00%–5.75%		24,311	24,382
2015A Note, includes unamortized premium of $107 and $3,855 and unamortized debt issuance cost of $24 and $245, respectively (C)	January 2025	2.25%–5.00%		2,873	31,790

	Final maturity	Interest rates		2022	2021
Industrial Development Authority of the City of Lexington:					
2018A Note, includes unamortized premium of $3,976 and $4,773 and issuance cost of $294 and $305 (D)	June 2048	5.00 %	$	33,072	34,248
2018B Note, includes unamortized issuance cost of $89 and $94 (E)	June 2043	Variable		15,021	15,017
2019 Note, includes unamortized issuance cost of $297 and $312 (F)	January 2043	3.38 %		37,413	37,398
2021 Note, includes unamortized issuance cost of $388 (G)	January 2040	0.83%-3.00%		27,387	—
			$	188,447	195,374

(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 final maturity of the remaining notes in January 2025. A portion of the 2015A notes originally scheduled to mature in 2026 through 2040 were refunded in December 2021 with proceeds from the 2021 Notes.

(D) Semi-annual interest payments and annual principal payments began January 1, 2019 and continuing until maturity in June 2048.

(E) 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, 2022 ranged from 0.66% to 1.43%.

(F) Semi-annual interest payments began July 1, 2020 with annual principal payments commencing January 1, 2034, and continuing until maturity in January 2043.

(G) In December 2021, the Lexington Authority issued revenue bonds in the amount of $27,775,000 known as Series 2021 Bonds, (1) refunding a portion of the Series 2015A Bonds, and (2) financing costs of issuance, funded interest, if any, and reserves, if any, with respect to the Bonds. Interest payments are paid semi-annually in January and July, commencing July 2022 with annual principal payments commencing January 1, 2023 and continuing until maturity in January 2040.

Aggregate principal payments due for the next five fiscal years are: 2023 – $5,940,000; 2024 – $6,225,000; 2025 – $6,550,000; 2026 – $6,850,000; 2027 – $7,230,000; and thereafter – $151,325,000.

Revolving Credit Agreement

The University has a Revolving Credit agreement with Truist Bank that permits the University to borrow through April 20, 2025 up to $15,000,000, bearing interest at an adjusted SOFR rate by adding the one-month SOFR plus one and one-quarter of one percent (1.25%) per annum, which shall be adjusted monthly on the first day of each month. At June 30, 2022, the University had $15,000,000 available under this facility.

(13) Net Assets

Net assets at June 30, 2022 were as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Operations	$	145	32,697	32,842
Student loan funds		—	6,050	6,050
Net investment in plant		136,586	—	136,586
Physical plant acquisitions		—	2,252	2,252
Quasi endowment funds		300,456	—	300,456
Donor restricted endowment		—	1,060,987	1,060,987
Contributions receivable		1,115	37,929	39,044
Split-interest agreements		634	20,041	20,675
Trust held by others		—	636,891	636,891
Post-retirement		(21,249)	—	(21,249)
Total	$	417,687	1,796,847	2,214,534

Net Assets at June 30, 2021 were as follows (in thousands):

		Without donor restrictions	With donor restrictions	Total
Operations	$	4,234	25,321	29,555
Student loan funds		—	5,926	5,926
Net investment in plant		134,583	—	134,583
Physical plant acquisitions		—	1,771	1,771
Quasi endowment funds		333,233	—	333,233
Donor restricted endowment		—	1,170,820	1,170,820
Contributions receivable		1,145	33,855	35,000
Split-interest agreements		853	24,240	25,093
Trust held by others		—	588,367	588,367
Post-retirement		(23,417)	—	(23,417)
Total	$	450,631	1,850,300	2,300,931

(Continued)

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, 2022 were as follows (in thousands):

Operations:		
Financial aid	$	3,124
Program support		6,105
Other		1,411
Net investment in plant		730
		11,370
Nonoperations:		
Net assets released for fixed asset acquisitions		5,192
Total	$	16,562

(14) Expenses

Expenses for the year ended June 30, 2022 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	$	58,864	10,610	—	9,734	2,726	81,934	—	81,934
Academic support		15,955	9,676	—	2,225	237	28,093	—	28,093
Student services		10,882	6,600	11	1,055	465	19,013	—	19,013
Institutional support		15,279	8,384	2	876	155	24,696	943	25,639
Auxiliary enterprises		10,015	4,933	5,704	6,989	3,047	30,688	—	30,688
Total	$	110,995	40,203	5,717	20,879	6,630	184,424	943	185,367

Expenses for the year ended June 30, 2021 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	$	55,056	8,697	—	9,277	3,281	76,311	—	76,311
Academic support		13,785	10,347	—	2,097	254	26,483	—	26,483
Student services		9,559	3,853	—	888	480	14,780	—	14,780
Institutional support		15,215	9,192	—	825	171	25,403	1,012	26,415
Auxiliary enterprises		8,858	5,295	4,182	6,563	3,459	28,357	—	28,357
Total	$	102,473	37,384	4,182	19,650	7,645	171,334	1,012	172,346

(15) 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). For the year ended June 30, 2022, the University matched 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 $6,785,000 and $5,088,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021 totaled $169,000 and $162,000, respectively.

(16) 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, 2022 and 2021 were as follows (in thousands):

		2022	2021
Service cost (benefits attributed to employee service during the year)	$	700	714
Interest cost on accumulated postretirement benefit obligation		643	582
Amortization of prior service cost		300	430
Net periodic postretirement benefit cost	$	1,643	1,726

The amortized actuarial gain or 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, 2022 and 2021 was 4.25% and 2.75%, respectively. The assumed health care cost trend used in measuring the accumulated postretirement benefit obligation was 6.5% in 2022, 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, 2022 and 2021 (in thousands):

		2022	2021
Change in benefit obligation:			
Accumulated benefit obligation, beginning of year	$	23,417	23,212
Service cost		700	714
Interest cost		643	582
Actuarial (gain)/loss		(2,061)	280
Net benefits paid		(1,450)	(1,371)
Accumulated benefit obligation, end of year	$	21,249	23,417
Amount not yet recognized in net periodic benefit cost and included in net assets without donor restrictions:			
Net actuarial (gain) loss	$	(455)	1,606
Prior service cost		533	833
	$	78	2,439

Projected postretirement health benefits expected to be paid in each of the next five fiscal years are: 2023 – $1,689,000; 2024 – $1,814,000; 2025 – $1,842,000; 2026 – $1,900,000 and 2027 – $1,918,000. An additional $10,211,000 is expected to be paid for the fiscal years 2028 through 2032.

Total employer and participant contributions are $1,451,000 and $140,000, respectively, for the year ended June 30, 2022. Total benefits paid for the year ended June 30, 2022 are $1,591,000. Total employer and participant contributions are $1,371,000 and $128,000, respectively, for the year ended June 30, 2021. Total benefits paid for the year ended June 30, 2021 are $1,499,000. The expense discount rate for the years ended June 30, 2022 and 2021 were 4.25% and 2.75%, respectively.

(17) Commitments

The University's contractual commitments for capital expenditures totaled approximately $5,075,000 at June 30, 2022.

(18) 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 63% and 67% of total funds held in trust by others for the periods ended June 30, 2022 and 2021, respectively.

(19) 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.

(20) 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 temporarily closed the campus effective March 13, 2020. The University issued room and board refunds to students as a result of this closure during fiscal 2020. The University's campus reopened for the 2020-2021 academic year and students again remained on campus for the 2021-2022 academic year. As such, the University did not issue additional room and board refunds during the years ended June 30, 2021 or 2022. Although campus was open, the ongoing effects of the COVID-19 pandemic impacted various parts of the University's fiscal year 2021 and 2022 operations and financial results, including the loss of auxiliary revenues, costs for increased use of technology and, more significantly, costs directly associated with health and safety measures. Management believes the University has taken appropriate actions to mitigate the negative impact.

Between June 2020 and May 2021, the University was awarded a total of $3,782,000 from the Higher Education Emergency Relief Funds (HEERF I, II & III), which consisted of $2,320,000 for student aid and $1,462,000 for institutional aid. During the year ended June 30, 2021, the University disbursed $523,000 in emergency financial aid grants to students and allocated $186,000 to cover COVID-19 testing costs incurred by the University. During the year ended June 30, 2022, the University disbursed $1,301,000 in emergency financial aid grants to students and allocated $1,250,000 to cover COVID-19 testing costs incurred by the University. All funds awarded under these grants have been disbursed as of June 30, 2022.

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.

(21) Related-Party Transactions

Members of the Board and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. The University has a written conflict-of-interest policy that requires annual disclosures from members of the Board, senior management, and other designated employees of any actual or potential conflicts of interest, including business or employment relationships or significant financial interests in businesses with which the University conducts business. No such relationships have been disclosed that are considered to be material to the financial statements.

Additionally, certain gifts and pledges to the University are received annually by Board members. All such business activity is conducted in accordance with the University's normal business practices.

Mortgage loans due from faculty and staff of $44,652,000 and $49,286,000 as of June 30, 2022 and 2021, respectively, are included within investments on the statement of financial position.

(22) Subsequent Events

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2022 financial statements through October 27, 2022, the date the financial statements were available to be issued.