

# William & Mary Foundation

Consolidated Financial Statements as of and  
for the Years Ended June 30, 2020 and 2019, and  
Independent Auditors' Report

# WILLIAM & MARY FOUNDATION

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Christine Marie Villa  
Charles Andrew Waters

# **WILLIAM & MARY FOUNDATION**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
the William & Mary Foundation  
Williamsburg, Virginia

We have audited the accompanying consolidated financial statements of the William & Mary Foundation (the "Foundation", formerly the College of William and Mary Foundation), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the William & Mary Foundation as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the William & Mary Foundation's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Deloitte & Touche LLP*

September 15, 2020

# WILLIAM & MARY FOUNDATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 21,899,098	\$ 20,546,910
Short-term investments	34,728,862	35,904,486
Accounts receivable	2,290,223	1,461,475
Prepaid expenses	302,144	290,553
Notes receivable	907,667	907,667
Pledges receivable—net	40,434,031	15,437,960
Property and equipment—net	8,414,981	8,873,288
Collections	6,119,744	6,093,244
Investments	615,651,829	622,955,627
Receivable from remainder trusts	5,591,643	6,453,650
Assets held in charitable remainder trusts	459,518	480,916
Cash surrender value of life insurance policies	1,515,679	1,540,632
Funds held in trust by others	<u>149,682,432</u>	<u>168,268,914</u>
TOTAL	<u>\$ 887,997,851</u>	<u>\$ 889,215,322</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 557,293	\$ 1,409,300
Accrued expenses	456,583	258,887
Accrued interest payable	74,920	76,207
Notes payable	325,003	634,560
Deferred compensation liability	452,528	626,214
Deferred income	37,839	32,862
Life estates retained by donors	1,144,817	1,162,277
Obligations under split-interest agreements	1,653,277	1,296,946
Bonds payable (net of unamortized bond issuance costs)	8,077,177	8,068,628
Interest in New Town Associates, LLC	400,280	346,637
Funds held for others	<u>16,599,405</u>	<u>17,369,231</u>
Total liabilities	<u>29,779,122</u>	<u>31,281,749</u>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	13,758,108	12,618,435
Designated for operating reserve	700,000	600,000
Designated for endowment	21,102,607	22,078,810
Invested in property and equipment—net of related debt	<u>(1,985,151)</u>	<u>(1,556,730)</u>
Total without donor restrictions	33,575,564	33,740,515
With donor restrictions:		
Restricted in perpetuity	507,107,585	506,740,285
Restricted for specified purpose or to the passage of time	162,231,915	138,885,323
Restricted subject to the Foundation's spending policy and appropriation	152,980,710	176,206,060
Invested in property and equipment—net of related debt	<u>2,322,955</u>	<u>2,361,390</u>
Total with donor restrictions	<u>824,643,165</u>	<u>824,193,058</u>
Total net assets	<u>858,218,729</u>	<u>857,933,573</u>
TOTAL	<u>\$ 887,997,851</u>	<u>\$ 889,215,322</u>

See notes to consolidated financial statements.

# WILLIAM & MARY FOUNDATION

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING ACTIVITY:				
Revenue and support:				
Contributions	\$ 221,005	\$ 64,378,820	\$ 64,599,825	\$ 47,140,421
Income on funds held by others	5,139,475	179,200	5,318,675	5,214,257
Investment return for current operations	4,457,693	21,812,222	26,269,915	24,611,131
CEI—technology fees and revenue from special projects	628,272	-	628,272	2,514,236
Other	965,035	152,413	1,117,448	1,139,457
	<u>11,411,480</u>	<u>86,522,655</u>	<u>97,934,135</u>	<u>80,619,502</u>
Net assets released from restrictions	<u>40,361,865</u>	<u>(40,361,865)</u>	-	-
Total revenue and support	<u>51,773,345</u>	<u>46,160,790</u>	<u>97,934,135</u>	<u>80,619,502</u>
Expenses:				
Program services:				
Instruction	5,814,027	-	5,814,027	5,903,126
Research	718,432	-	718,432	658,509
Public service	36,734	-	36,734	40,109
Academic support	2,868,527	-	2,868,527	2,641,163
Institutional support	1,531,402	-	1,531,402	1,314,755
Athletic programs	1,215,138	-	1,215,138	1,162,053
Student life and other	295,016	-	295,016	197,889
Plant and facilities	18,732,957	-	18,732,957	11,483,027
Scholarships and fellowships	10,614,105	-	10,614,105	10,463,496
Technology—CEI	1,113,825	-	1,113,825	2,931,124
Total program services	<u>42,940,163</u>	<u>-</u>	<u>42,940,163</u>	<u>36,795,251</u>
Supporting services—fundraising	<u>6,238,871</u>	<u>-</u>	<u>6,238,871</u>	<u>6,816,163</u>
Administrative and general:				
Board expenses	48,626	-	48,626	75,000
Office of Investment Administration	932,447	-	932,447	1,013,969
Expenses of the Real Estate Foundation, Inc.	59,410	-	59,410	52,744
Expenses of Reliance Holdings, LLC	2,048	-	2,048	1,982
Other	825,174	-	825,174	324,606
Total administrative and general	<u>1,867,705</u>	<u>-</u>	<u>1,867,705</u>	<u>1,468,301</u>
Total supporting services	<u>8,106,576</u>	<u>-</u>	<u>8,106,576</u>	<u>8,284,464</u>
Total expenses	<u>51,046,739</u>	<u>-</u>	<u>51,046,739</u>	<u>45,079,715</u>

(Continued)

# WILLIAM & MARY FOUNDATION

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<b>2020</b>			<b>2019 Total</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	
CHANGE IN NET ASSETS FROM OPERATIONS	<u>\$ 726,606</u>	<u>\$ 46,160,790</u>	<u>\$ 46,887,396</u>	<u>\$ 35,539,787</u>
NONOPERATING ACTIVITY:				
Investment return	(837,914)	(27,017,295)	(27,855,209)	7,207,502
Net unrealized (loss) gain on funds held in trust by others	-	(18,586,482)	(18,586,482)	19,565,962
Change in value of split-interest agreements	-	(106,906)	(106,906)	308,503
Change in value of interest in New Town Associates, LLC	<u>(53,643)</u>	<u>-</u>	<u>(53,643)</u>	<u>(13,974)</u>
Total nonoperating activity	<u>(891,557)</u>	<u>(45,710,683)</u>	<u>(46,602,240)</u>	<u>27,067,993</u>
CHANGE IN NET ASSETS	(164,951)	450,107	285,156	62,607,780
NET ASSETS—Beginning of year	<u>33,740,515</u>	<u>824,193,058</u>	<u>857,933,573</u>	<u>795,325,793</u>
NET ASSETS—End of year	<u>\$ 33,575,564</u>	<u>\$ 824,643,165</u>	<u>\$ 858,218,729</u>	<u>\$ 857,933,573</u>

See notes to consolidated financial statements.

(Concluded)

# WILLIAM & MARY FOUNDATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 285,156	\$62,607,780
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized (gain) loss on funds held in trust by others	18,586,482	(19,565,962)
Depreciation	458,307	497,288
Proceeds from sale of donated securities	1,420,177	940,968
Net realized gain on investments sold	(172,654)	(415,611)
Net unrealized (gain) loss on investments and short-term investments	210,550	(308,073)
Change in value of investment in William and Mary Investment Trust	2,735,250	(30,103,171)
Change in value of investment in William and Mary Investment Trust in funds held for others	59,355	(868,098)
Change in value of interest in New Town Associates, LLC	53,643	13,973
Amortization of bond issuance costs	8,549	8,549
Contributions restricted for endowment	(14,473,218)	(19,213,905)
Contributions restricted for split-interest agreements	(241,417)	(15,980)
Noncash gifts	(5,323,833)	(6,272,312)
Investment return designated for long term investment	(2,536,914)	(2,162,374)
Loss on disposal of property and equipment and collections	-	50
(Increase) decrease in assets:		
Accounts receivable	(828,748)	(512,833)
Prepaid expenses	(11,591)	34,667
Pledges receivable	(24,996,071)	4,296,210
Receivable from remainder trusts	862,007	(55,164)
Assets held in charitable remainder trusts	21,398	2,911
Cash surrender value of life insurance policies	24,953	(57,712)
Increase (decrease) in liabilities:		
Accounts payable	(852,007)	1,044,898
Accrued expenses	197,696	25,913
Accrued interest payable	(1,287)	(14,120)
Deferred compensation liability	(173,686)	(96,413)
Deferred income	9,046	3,309
Life estates retained by donors	(17,460)	(18,208)
Obligations under split-interest agreements	18,084	142,851
Funds held for others	(769,826)	209,113
Net cash used in operating activities	<u>(25,448,059)</u>	<u>(9,851,456)</u>

(Continued)

# WILLIAM & MARY FOUNDATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	\$ -	\$ (10,560)
Purchase of collections	(26,500)	-
Purchase of investments	(89,003,163)	(85,030,232)
Payments received on investment note receivable	-	600,000
Proceeds from investments sold	<u>94,763,499</u>	<u>74,320,942</u>
Net cash provided by (used in) investing activities	<u>5,733,836</u>	<u>(10,119,850)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term investment:		
Contributions restricted for endowment	14,473,218	19,213,905
Proceeds from sale of donated securities	3,857,348	5,259,302
Investment subject to split-interest agreements	241,417	15,980
Investment return designated for long-term investment	2,536,914	2,162,374
Other financing activities:		
Receipts funding split-interest obligations	503,582	34,019
Payments of split-interest obligations	(236,511)	(236,796)
Payments on notes	<u>(309,557)</u>	<u>(294,844)</u>
Net cash provided by financing activities	<u>21,066,411</u>	<u>26,153,940</u>
NET INCREASE IN CASH	1,352,188	6,182,634
CASH AND CASH EQUIVALENTS—Beginning of year	<u>20,546,910</u>	<u>14,364,276</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$21,899,098</u>	<u>\$20,546,910</u>

### SUPPLEMENTAL DATA—Noncash investing and financing activities:

Noncash gifts designated for endowment and other purposes consist of securities and other investments.

Cash paid for interest on bonds and notes for the years ended June 30, 2020 and 2019, was \$322,890 and \$350,093, respectively.

Cash paid (refunded) for taxes for the years ended June 30, 2020 and 2019 was \$411 and \$(2,592), respectively. Taxes resulted from unrelated business income in limited partnerships.

See notes to consolidated financial statements.

(Concluded)

# **WILLIAM & MARY FOUNDATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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### **1. ORGANIZATION AND PURPOSE**

William & Mary Foundation (the "Foundation"), formerly known as The College of William & Mary Foundation, is a private corporation, established as a nonprofit public charity under Section 501(c)(3) of the Internal Revenue Code and organized under the laws of the Commonwealth of Virginia. The Foundation was chartered in 1939 to "aid, strengthen, and expand in every proper and useful way" the work of The College of William and Mary in Virginia (the "University"). Members of the Foundation raise funds for the benefit of the University and manage its privately held assets.

The Foundation has seven affiliated entities that are consolidated for financial reporting purposes:

#### **THE COLLEGE OF WILLIAM AND MARY REAL ESTATE FOUNDATION, INC.**

The College of William and Mary Real Estate Foundation, Inc. ("REF") was created in 1994 to hold title to real and personal property, collect income therefrom, and transfer the income to the Foundation, which is the sole stockholder of the corporation.

#### **COLLEGE ENTERPRISES, INC.**

In March 1996, the Board of Trustees (the "Board") approved funding support by the Foundation for the installation of a campus-wide communications system. The Foundation received approval from the Attorney General's Office of the Commonwealth of Virginia to use private funds to finance the telecommunications project for the University as it was not feasible to use state funds. The Foundation and the University created an entity under the name of College Enterprises, Inc. ("CEI"). In accordance with accounting guidance for reporting of related entities by not-for-profit organizations, the financial statements of the Foundation include the accounts of CEI because control of and economic interest in CEI rests with the Foundation. CEI received student technology fees, billed to the students by the University, through June 30, 2019, and from this revenue paid for network maintenance, improvements and personnel costs related to operating the system. The University now retains the fees and has the functional and financial responsibility for operating the system. The University pays CEI for its costs of various construction projects relating to the telecommunications network under contract as of June 30, 2019. The intent is to dissolve CEI as a subsidiary of the Foundation once all activities have been transitioned to the University.

#### **RELIANCE HOLDINGS, LLC**

Reliance Holdings, LLC ("Reliance"), created in March 2000, holds a 50% interest in New Town Associates, LLC ("New Town Associates"), a real estate joint venture, and receives 50% of the associated gains and losses. Reliance, which is wholly owned by the REF and the Foundation, is considered a subsidiary of the Foundation for consolidation purposes.

Investment real estate which was owned by the REF and C.C. Casey, Limited Company ("Casey") was sold to New Town Associates in June 2000 in exchange for a \$26,789,834 note receivable, including accrued interest (the "Note"). Effective July 1, 2003, the note



was restructured to decrease the aggregate balance due to the REF and Casey to \$12,000,000. Based on revised cash flow projections, the face amount of the note due to the REF and Casey was increased to \$13,600,000, including interest, during the year ended June 30, 2009, with an effective date of June 30, 2007.

Effective December 31, 2012, the due date of the note was extended to December 31, 2013, with automatic one year extensions unless the REF or Casey provide written notice by September 30 of any year stating that the note shall not be extended. All other terms of the note continued in full force and effect. Under the terms of the automatic extension, the current due date is December 31, 2020.

In accordance with the Intercreditor Agreement between the REF and Casey, the REF is entitled to receive 75% of the first \$12,000,000 of Note payments and 25% of Note payments in excess of \$12,000,000. During the year ended June 30, 2015, management determined that the realization of further interest was not probable. Therefore, no additional interest has been recorded. Based on analysis of financial results and cash flow projections of New Town Associates, the recorded value of the note was increased during the year ended June 30, 2015 to reflect the estimated amount to be received. Additional interest will be recognized as note payments are received in excess of the recorded value, or as new information indicates collection is likely. Payments of \$600,000 were received on the Note in the year ended June 30, 2019. The REF's interest in the Note is recorded at a value of \$750,000 at June 30, 2020 and 2019, and is included in investments on the Consolidated Statements of Financial Position.

#### **CWMF VENTURES, LLC**

During the year ended June 30, 2007, the Foundation established CWMF Ventures, LLC ("CWMF Ventures"), a limited liability company, in which the Foundation is the sole member. The purpose of CWMF Ventures is to own the Discovery I Building, an office building which was completed and placed in service during the year ended June 30, 2008, and which is leased to the University. Together with the Foundation, CWMF Ventures is also a party to agreements relating to the issuance of certain revenue bonds issued to finance the Discovery I Building (see Note 13).

#### **MURRAY 1693 SCHOLARS FOUNDATION**

The Murray 1693 Scholars Foundation ("1693 Foundation") was created in 2013 to develop, expand, manage, oversee and strengthen in every proper and useful way the 1693 Scholars Program on behalf of the University and the Foundation. The Foundation is required to appoint a majority of the board of the 1693 Foundation, and as a result of this control, the accounts of the 1693 Foundation are included in the consolidated financial statements of the Foundation. With consent of donors, during the year ended June 30, 2016, the Foundation transferred endowments to the 1693 Foundation, and these endowments are included in the total invested in The William and Mary Investment Trust (the "Trust").

#### **FOUNDATION SERVICES, LLC**

During the year ended June 30, 2020, the Foundation established Foundation Services, LLC ("Foundation Services"), a limited liability company, in which the Foundation is the sole member. Foundation Services was organized and will be operated for charitable and educational purposes benefiting, performing functions of, or carrying out the exempt purpose of the Foundation.

## **1693 MANAGEMENT COMPANY, LLC**

During the year ended June 30, 2020, the Foundation established 1693 Management Company, LLC ("1693 Management"), a limited liability company, in which the Foundation is the sole member. The purpose of 1693 Management is to provide investment management and related services with respect to investment funds and assets held by or for the benefit of the Foundation, the University and other tax-exempt organizations supporting the University.

## **2. SUMMARY OF SIGNIFICANT OPERATIONS AND ACCOUNTING POLICIES**

**Basis of Presentation**—The accompanying consolidated financial statements of the Foundation include the accounts of its affiliates (see Note 1). Inter-company accounts and transactions have been eliminated in consolidation.

**Basis of Accounting**—The accompanying consolidated financial statements are prepared under accounting principles generally accepted in the United States of America ("GAAP"). Revenue and support are recognized in the accounting period in which it is realized or realizable and earned and expenses are recognized in the accounting period in which the related liability is incurred. Nonoperating activity is recognized in accordance with these same principles.

**Cash Equivalents**—Cash equivalents include highly-liquid investment instruments with an original maturity of three months or less when purchased.

**Investments**—The Foundation's investment activities expose it to a variety of risks, including but not limited to interest rate risk, liquidity risk, credit risk, concentration risk and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Investments (see Note 4) and funds held in trust by others (see Note 10) are generally carried at fair value. Securities traded on U.S. or foreign exchanges are valued at the last reported sales price or, if there are no sales, at the latest bid quotation. Mutual funds and exchange traded funds traded on U.S. or foreign exchanges are valued at the closing net asset value; mutual funds not traded on national exchanges are valued in good faith at the pro-rata interest in the net assets of these entities. Short-term government and agency bonds and notes, included in Short-term investments in the Consolidated Statements of Financial Position, are valued based on market driven observations and securities characteristics including ratings, coupons and redemptions. The values of limited partnerships, commingled investment funds and investment trusts are determined in good faith at the pro-rata interest in the net assets of these entities. Investments held by these entities are valued at amounts which approximate fair value. The estimated fair value of certain investments in the underlying entities, which may include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors or third party administrators of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. These investments are valued using valuation techniques included in Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, including the market approach, income approach, and cost approach. The estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and these differences could be material.

Short-term investments have maturities of one year or less as of June 30.

Investment transactions are accounted for on a trade date basis. Dividends are recognized on the ex-dividend date and interest income is recognized on the accrual basis. Net realized and unrealized gains and losses are reflected in the Consolidated Statements of Activities as increases or decreases in net assets without donor restrictions or net assets with donor restrictions in accordance with the donor's stipulations concerning the purposes for which income may be used.

**Fair Value Measurement**—Certain assets and liabilities of the Foundation are reflected in the accompanying financial statements at fair value. The Foundation follows the provisions in ASC Topic 820. ASC Topic 820 establishes a fair value hierarchy and specifies that the valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

**Level 1**—Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Foundation has the ability to access at the measurement date;

**Level 2**—Quoted prices in markets which are not active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and

**Level 3**—Prices, inputs or sophisticated modeling techniques, which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As a practical expedient, ASC Topic 820 permits an entity holding investments in certain entities that have the attributes described in ASC Topic 946, *Financial Services—Investment Companies*, or have attributes similar to such entities, and which calculate Net Asset Value ("NAV") per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The Foundation uses the practical expedient to value its investments in certain mutual funds, limited partnerships, limited liability companies, commingled investment funds, notes, and investment trusts. Investments valued using the practical expedient are not categorized within the fair value hierarchy, and are presented as Other in the tables in Note 5 for purposes of reconciling to the Consolidated Statements of Financial Position.

**Endowments**—The Foundation's endowment consists of funds established for a variety of purposes, and includes donor-restricted endowment funds, funds designated by donors as long-term in nature but allowing distributions from principal under certain circumstances, and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowments and funds functioning as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring preservation of the fair value, as of the gift date, of gifts to a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions

restricted in perpetuity for endowment (a) the original value of all gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity is classified as net assets with donor restrictions restricted subject to the Foundation’s spending policy until appropriated for expenditure in a manner consistent with the standards of prudence prescribed by UPMIFA, and, where income is designated by the donor for use for a specific purpose, when the funds are used for the purpose specified by the donor. In accordance with UPMIFA, the Foundation considers the following factors in making a determination, in the aggregate, to appropriate for expenditure or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the institution and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the institution; and
- (7) The investment policy of the institution

Generally, endowment assets are pooled on a market value basis. Each individual fund purchases or disposes of units on the basis of the market value per unit at the beginning of the calendar quarter within which the transaction takes place. Annual payout, including unrealized and realized net gains, as necessary, is distributed pro rata based upon the number of units owned by each fund. These amounts are either expendable at the discretion of the Board or according to donor restrictions.

**Pledges Receivable**—ASC Topic 958, *Not-for-Profit Entities*, requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires the Foundation to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. The pledges receivable reflects management’s estimate of the funds to be received after an allowance for uncollectible pledges discounted to the net present value using an assumed risk free interest rate. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

**Property and Equipment**—Property and equipment used in operations are reported at cost or the current estimated value at the date of gift, if donated. Depreciation is computed by the straight-line method using the following estimated useful lives:

	<b>Useful Life</b>
Land improvements	15 years
Buildings and improvements	15–50 years
Equipment	5–30 years
Furniture and fixtures	12–30 years
Telecommunications system	3–15 years
Other	5–20 years

Gains and losses arising from retirement or sale of property and equipment are recognized in the Consolidated Statements of Activities.

Property and equipment includes certain assets to which the Foundation has legal title, but are used and controlled by the University.

**Collections**—Collections presented in the Consolidated Statements of Financial Position represent non-depreciable works of art and historical items reported at cost or fair market value at the time of donation. Purchases of collections were \$26,500 for the year ended June 30, 2020. There were no purchases or contributions to collections for the year ended June 30, 2019.

**Receivable from Remainder Trusts**—Gifts in which the Foundation has an irrevocable remainder interest, but that are held in trust and administered by outside agents, have been recorded as gifts that are temporarily or permanently restricted based on donor stipulations and reported as a receivable from remainder trusts. Upon termination of life interests in the trusts, the remainder will be distributed to the Foundation. The receivables are valued using present value and actuarial techniques to estimate the present value of expected future cash flows.

**Life Estates Retained by Donors**—The Foundation owns land and buildings in which the donors have retained the right to occupy for their lifetime. The value of the land and buildings is reported in investments or in property and equipment, with the value of the life estate reported as a liability.

**Split-Interest Agreements**—Through planned giving agreements, donors have contributed assets to the Foundation or to trusts for which the Foundation serves as trustee. In exchange, the donor or other beneficiaries will receive a fixed amount or percentage of assets over their lifetime. The present values of these commitments are liabilities and are classified as obligations under split interest agreements in the Consolidated Statements of Financial Position. Discount rates of 1.2% to 9.6% were used in determining the actuarial liability for fiscal years 2020 and 2019. The related assets are classified in investments and assets held in charitable remainder trusts on the Consolidated Statements of Financial Position.

**Funds Held for Others**—The Foundation holds certain assets for the benefit of two organizations. In accordance with ASC Topic 958, contributions received by the Foundation which have been designated for the benefit of other organizations are recorded as liabilities unless the organization is financially interrelated with the Foundation or the Foundation has been granted variance power.

The Omohundro Institute of Early American History and Culture (the “Institute”) is not financially interrelated with the Foundation. Since assets held by the Foundation to benefit the Institute were either contributed by third parties without granting variance power or were transferred from the Institute, these funds are recorded as liabilities under funds held for others. The value of the liability is measured at the fair value of the assets, the majority of which are invested in the Trust.

The William & Mary Alumni Association (the “Association”) and the Foundation were established primarily to support the University. As such, the Association is considered a financially interrelated organization of the Foundation, and therefore, activities of assets held by the Foundation in support of its operations are included in the accompanying Consolidated Statements of Activities and are reflected in the net assets of the Foundation.

Funds held for the benefit of the Association, included in net assets, were valued at \$7,745,353 and \$7,407,578 at June 30, 2020 and 2019, respectively.

**Net Assets**—ASC Topic 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into categories as follows:

***Net Assets Without Donor Restrictions***—Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions generally result from receiving unrestricted contributions, unrealized and realized gains and losses on board designated funds functioning as endowments with no donor-imposed or legal restrictions on income, income from funds held in trust by others with no restrictions as to use, and revenue from investing non-endowment funds in income-producing assets. The Board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowments.

***Net Assets With Donor Restrictions***—Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Contributions**—Contributions, including unconditional promises to give, are recognized as revenue when the donor's commitment is received. Gifts received by bequests are recognized as revenue when the will is declared valid by the respective probate court and when all conditions are substantially met. Contributions to the Foundation are either unrestricted as to use or carry specific restrictions imposed by the donors. Unrestricted gifts are reflected as contributions in net assets without donor restrictions. Restricted contributions are reflected as contributions in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions.

**Investment Return**—The Foundation segregates investment return into operating and nonoperating components. Operating investment return includes investment income, net of fees, that is available for current operations and payout on endowments and similar funds calculated in accordance with the Board-adopted payout policy. Non-operating investment return represents investment return in excess of or less than amounts available for current operations.

**Estimates**—The preparation of financial statements in conformity with 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

On March 11, 2020, the World Health Organization declared the global outbreak of the novel corona virus (COVID-19) as a pandemic. The spread of COVID-19 has caused significant volatility in financial markets and the overall global economy. The resolution and impact of these ongoing events is highly uncertain. The Foundation has implemented precautionary measures to continue its operations consistent with the guidance of local and national governmental leaders. The operational and financial performance of the Foundation depends on future developments, including the duration and spread of the outbreak, and such uncertainty may in turn impact the Foundation's operations and the valuation of its investments. Accordingly, the Foundation is unable to predict to what extent the pandemic response may impact the subsequent financial results and operations of the Foundation.

**Summarized Comparative Information**—The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

**Recent Accounting Pronouncements**—In February 2016, the Financial Accounting Standards Board ("FASB") adopted Accounting Standards Update ("ASU") 2016-02 which amends the ASC by creating Topic 842, *Leases*. The ASU requires that a lessee should recognize the assets and liabilities that arise from leases. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for the Foundation's year ending June 30, 2023. Management is evaluating the impact this ASU will have on the financial statements.

In August 2016, the FASB adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statement of financial position and statement of activities and enhanced disclosures in numerous areas. The ASU was effective for the Foundation's year ended June 30, 2019.

In June 2018, the FASB adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves the guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. Additionally, the ASU requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The amendments in this ASU are generally effective and have generally been applied on a modified prospective basis beginning for the Foundation's year ending June 30, 2020, and applied to agreements that are either not completed as of the effective date or entered into after the effective date.

In August 2018, the FASB adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU improves the effectiveness of disclosure requirements for fair value measurement. The effective date for ASU 2018-13 is for fiscal years beginning December 15, 2019. As permitted by the ASU, the Foundation adopted the guidance related to removed or modified disclosures prior to the effective date for the year ended June 30, 2019.

In March 2019, the FASB adopted ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The ASU improves the definition of *collections* by realigning it with the definition in the American Alliance of Museums' *Code of Ethics for Museums*. The ASU is effective for the Foundation's year ending June 30, 2021. Management is evaluating the impact this ASU will have on the financial statements.

### 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 6,910,711	\$ 6,057,243
Accounts receivable	481,421	308,612
Investments	1,832,122	1,809,432
Distributions from funds held in trust by others	5,094,000	5,166,000
Endowment distributions and appropriations	<u>5,113,368</u>	<u>5,021,606</u>
	<u>\$ 19,431,622</u>	<u>\$ 18,362,893</u>

The Foundation is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, those financial assets may not be available for general expenditure within one year.

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board designated a portion of its unrestricted resources for endowment (see Note 14). The Board-designated endowments are subject to an annual spending rate (see Note 6). Although the Foundation does not intend to spend from the Board-designated endowments (other than amounts appropriated for expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary. However, the funds are subject to the withdrawal provisions of the Trust (see Note 4).

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As part of its liquidity management plan, the Foundation invests cash in excess of its daily requirements in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$700,000 and \$600,000 as of June 30, 2020 and 2019, respectively.



#### 4. INVESTMENTS

Investments, which are generally carried at fair value, at June 30, 2020 and 2019, were comprised of the following:

	<b>2020</b>	<b>2019</b>
Short-term investments:		
Government and agency bonds and notes	<u>\$ 34,728,862</u>	<u>\$ 35,904,486</u>
Investments:		
Cash pending investment	\$ 655,383	\$ 9,851,385
Common stock	138,632	547,685
Investment in William and Mary Investment Trust	606,741,533	604,739,352
Mutual funds and commingled funds—equity	3,989,742	3,781,302
Mutual funds and commingled funds—fixed income	462,524	204,538
U.S. government bonds	1,591,504	1,535,533
Real estate	987,982	987,982
Notes receivable (Note 1)	750,000	750,000
Private equity and other	<u>334,529</u>	<u>557,850</u>
Total investments	<u>\$615,651,829</u>	<u>\$622,955,627</u>

The following schedules summarize the investment return and its classification in the consolidated statements of activities:

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Investment return—net	\$ 1,109,597	\$ 40,359	\$ 1,149,956
Change in value of William and Mary Investment Trust	<u>2,510,182</u>	<u>(5,245,432)</u>	<u>(2,735,250)</u>
Total investment return	<u>\$ 3,619,779</u>	<u>\$ (5,205,073)</u>	<u>\$ (1,585,294)</u>
Reported on Consolidated Statements of Activities			
Investment return from pooled investments budgeted for current operations	\$ 3,479,130	\$ 21,656,381	\$ 25,135,511
Other investment return designated for current operations	<u>978,563</u>	<u>155,841</u>	<u>1,134,404</u>
Total for current operations	4,457,693	21,812,222	26,269,915
Investment return less than amounts for current operations	<u>(837,914)</u>	<u>(27,017,295)</u>	<u>(27,855,209)</u>
Total investment return	<u>\$ 3,619,779</u>	<u>\$ (5,205,073)</u>	<u>\$ (1,585,294)</u>

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Investment return—net	\$ 1,261,890	\$ 453,572	\$ 1,715,462
Change in value of William and Mary Investment Trust	<u>3,689,834</u>	<u>26,413,337</u>	<u>30,103,171</u>
Total investment return	<u>\$ 4,951,724</u>	<u>\$ 26,866,909</u>	<u>\$ 31,818,633</u>
Reported on Consolidated Statements of Activities			
Investment return from pooled investments budgeted for current operations	\$ 3,469,606	\$ 20,208,842	\$ 23,678,448
Other investment return designated for current operations	<u>806,246</u>	<u>126,437</u>	<u>932,683</u>
Total for current operations	4,275,852	20,335,279	24,611,131
Investment return in excess of amounts for current operations	<u>675,872</u>	<u>6,531,630</u>	<u>7,207,502</u>
Total investment return	<u>\$ 4,951,724</u>	<u>\$ 26,866,909</u>	<u>\$ 31,818,633</u>

Effective July 1, 2004, the Foundation established The William and Mary Investment Trust, a grantor group trust. The purpose of the Trust is to provide a means by which tax-exempt organizations, including the Foundation, whose principal purpose is to support the functions and activities of the University, may take advantage of the investment strategies and opportunities developed, implemented, and monitored by the Foundation. The Foundation serves as trustee of the Trust, and The Northern Trust Company acts as custodian. Each grantor to the Trust owns an interest proportional to the value of the assets transferred to the Trust, which is increased or decreased with subsequent contributions or distributions.

At June 30, 2020 and 2019, the investments in the Trust were composed of:

	<b>2020</b>	<b>2019</b>
Common stocks	\$ 104,281,040	\$ 90,636,213
Investment in exchange listed funds	68,531,920	51,096,875
Investment in private investment funds	508,778,421	517,213,103
Short-term investments	<u>34,757,547</u>	<u>50,882,671</u>
Total investments	716,348,928	709,828,862
Cash	244	247
Receivables	199,471	386,503
Receivable for investments sold	717,903	5,243,375
Payables and accrued expenses	<u>(675,894)</u>	<u>(77,037)</u>
Net assets	<u>\$ 716,590,652</u>	<u>\$ 715,381,950</u>

At June 30, 2020 and 2019, the Foundation, which includes the 1693 Foundation as a consolidated entity, owned 84.7% and 84.5% of the net assets of the Trust, respectively.

For the years ended June 30, 2020 and 2019, the net investment return for the Trust was \$(3,298,321) and \$36,654,450, respectively.

The Foundation, which includes the 1693 Foundation as a consolidated entity, received 84.7% and 84.5% of the total investment return of the Trust for the years ended June 30, 2020 and 2019, respectively, which includes amounts of \$(59,355) and \$868,098, respectively, for investment return on funds held for others.

The majority of the Foundation's financial assets are held in the Trust. Each year the grantors notify the Trust of the amount to be withdrawn quarterly representing spending rate distributions. At the discretion of the Trustee, providing sufficient liquidity exists in the portfolio such that special withdrawals will not adversely impact the asset allocation or expected return of the portfolio, special withdrawals may be made in accordance with the following schedule:

- First \$5 million within four months
- Next \$15 million within seven months
- Next \$30 million within ten months
- More than \$50 million within thirteen months

Disbursements may be made on a more accelerated basis if sufficient liquidity can be generated without affecting the Trust's investment strategy. However, disbursements may be delayed due to liquidation schedules affecting illiquid securities held in the portfolio.

The following table summarizes the liquidity provisions related to the Trust's investments in private investment funds by investment strategy as of June 30, 2020:

<b>Private Investment Funds by Investment Strategy</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>	<b>Estimated Remaining Holding Period</b>
<b>Absolute Return <sup>(A)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	\$ 38,160,210	\$ -	Monthly, Quarterly, Annually, Every 2 years	19-90 days	1 day - 6 months
Illiquid <sup>(2)</sup>	8,900,147	-	Illiquid	NA	Termination of fund
<b>Domestic Equity <sup>(B)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	91,979,861	-	Quarterly, Annually, Every 3 years	30-90 days	1 day-8 months
<b>Fixed Income <sup>(C)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	30,392,743	-	Daily	1 day	1 day
<b>Foreign Equity (Developed) <sup>(D)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	63,603,728	-	Monthly, Quarterly, Every 3 years	5-90 days	1 day-8 months
Redeemable > 1 year <sup>(1)</sup>	11,043,054	-	Every 3 years	90 days	13-44 months
<b>Foreign Equity (Emerging Markets) <sup>(E)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	26,801,625	-	Daily, Monthly	12-28 days	1 day-1 month
<b>Private Equity <sup>(F)</sup></b>					
Illiquid <sup>(2)</sup>	129,945,940	43,737,131	Illiquid	NA	Termination of fund
<b>Real Assets <sup>(G)</sup></b>					
Illiquid <sup>(2)</sup>	63,961,248	55,665,941	Illiquid	NA	Termination of fund
<b>Special Situations <sup>(H)</sup></b>					
Illiquid <sup>(2)</sup>	42,735,708	22,689,075	Illiquid	NA	Termination of fund
<b>Transitional Trading <sup>(I)</sup></b>					
Illiquid <sup>(2)</sup>	1,254,157	-	Illiquid	NA	Termination of fund
	<u>\$ 508,778,421</u>	<u>\$ 122,092,147</u>			

The following table summarizes the liquidity provisions related to the Trust's investments in private investment funds by investment strategy as of June 30, 2019:

Private Investment Funds by Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Estimated Remaining Holding Period
<b>Absolute Return <sup>(A)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	\$ 30,388,626	\$ -	Monthly, Quarterly, Annually	16-90 days	1 day - 6 months
Redeemable > 1 year <sup>(1)</sup>	11,811,372	-	Every 2 years	90 days	16 months
Illiquid <sup>(2)</sup>	11,847,784	-	Illiquid	NA	Termination of fund
<b>Domestic Equity <sup>(B)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	76,737,084	-	Quarterly, Annually	30-90 days	1 day-12 months
Redeemable > 1 year <sup>(1)</sup>	7,939,163	-	Every 3 years	60 days	18 months
Illiquid <sup>(2)</sup>	1,117,691	-	Illiquid	NA	Termination of fund
<b>Fixed Income <sup>(C)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	27,821,479	-	Daily	1 day	1 day
<b>Foreign Equity (Developed) <sup>(D)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	70,658,756	-	Monthly, Quarterly, Every 3 years	5-90 days	1 day-8 months
Redeemable > 1 year <sup>(1)</sup>	6,266,842	-	Every 3 years	90 days	13-32 months
<b>Foreign Equity (Emerging Markets) <sup>(E)</sup></b>					
Redeemable ≤ 1 year <sup>(1)</sup>	47,130,088	-	Daily, Monthly	12-28 days	1 day-1 month
<b>Private Equity <sup>(F)</sup></b>					
Illiquid <sup>(2)</sup>	118,219,105	49,485,176	Illiquid	NA	Termination of fund
<b>Real Assets <sup>(G)</sup></b>					
Illiquid <sup>(2)</sup>	61,348,369	57,091,491	Illiquid	NA	Termination of fund
<b>Special Situations <sup>(H)</sup></b>					
Illiquid <sup>(2)</sup>	45,854,494	30,925,196	Illiquid	NA	Termination of fund
<b>Transitional Trading <sup>(I)</sup></b>					
Illiquid <sup>(2)</sup>	72,250	-	Illiquid	NA	Termination of fund
	<u>\$ 517,213,103</u>	<u>\$ 137,501,863</u>			

<sup>(1)</sup> Redeemable investments may be redeemed at the discretion of the Trust in accordance with the terms of the governing agreement, which may include restrictions that do not allow redemption for a specified period of time following an investment. Investments held at June 30, 2020 and 2019 that are available for redemption during the next fiscal year totaled \$250,938,167 and \$252,736,033, respectively. Investments held at June 30, 2020 and 2019 that are available for redemption in more than one year totaled \$11,043,054 and \$26,017,377, respectively. Estimated remaining holding period reflects the period until the next available redemption date subsequent to June 30, including expiration of lockup periods.

<sup>(2)</sup> Illiquid investments cannot be redeemed with the investment fund. This category includes investments from which distributions will be received as the underlying investments are liquidated, and may include investments on which redemption restrictions of unknown duration have been imposed. If allowed under the terms of the fund agreement, illiquid investments can be sold to other eligible investors through private placements arranged through the general partner. Illiquid investments at June 30, 2020 and 2019 totaled \$246,797,200 and \$238,459,693, respectively.

<sup>(A)</sup> Absolute Return represents miscellaneous types of equity and equity-like structures as well as fixed income securities held by managers that operate under broadly defined investment guidelines, indicative of the hedge fund industry. This category is populated by multi-strategy, credit-driven, event arbitrage and fund-of-fund hedge funds. Securities can be of all types, public and private, foreign and domestic, of all capitalization sizes, industry concentrations, including exposures to various long/short and option strategies, managed futures, global tactical asset allocation, currency, and various forms of real estate or other hard assets.

<sup>(B)</sup> Domestic Equity represents equity securities held by managers who primarily invest in securities listed on United States exchanges. This category comprises all capitalization sizes, industry sectors, and includes both long and short strategies.

<sup>(C)</sup> Fixed Income represents various bond and bond-like securities that have an income stream as a component part of the security's total rate of return. These securities are designed to be liquid and traded through established bond markets, both foreign and domestic. In cases where there is no bid or established market, pricing can be determined through modeling and other means of comparative analysis. Fixed income strategies employed by the Trust can include the engagement of investment managers who use various derivative instruments as a component part of their commingled fund portfolios.

- (D) Foreign Equity (Developed) represents equity securities held by managers who primarily invest in securities listed on non-U.S. exchanges in those countries captured within the MSCI EAFE index. This category comprises all capitalization sizes, industry sectors, and includes both long and short strategies.
- (E) Foreign Equity (Emerging Markets) represents equity securities held by managers who primarily invest in securities listed on non-U.S. exchanges in those countries captured within the MSCI Emerging Markets index. This category comprises all capitalization sizes, industry sectors, and includes both long and short strategies.
- (F) Private Equity represents equity interests held primarily through various limited partnerships in asset categories of venture capital and private equity (buyouts), foreign and domestic.
- (G) Real Assets include miscellaneous foreign and domestic partnership interests in various asset classes of real estate, managed futures (commodities), energy (oil and gas), timber, and self-storage facilities. Whereas most held securities are equity and equity-like interests, the engaged investment managers may employ various derivative instruments as a component part of their commingled fund portfolios.
- (H) Special Situations includes miscellaneous types of foreign and domestic equity and equity-like structures as well as fixed income securities held by managers who were hired to pursue specific opportunistic strategies. This category is populated by managers who were investing in distressed debt situations, specialized credit opportunities, privately negotiated lending facilities with public or private companies, event-driven arbitrage, life settlements and aviation assets.
- (I) Transitional Trading includes a variety of assets that have been distributed or redeemed from a manager's holdings in the portfolio. These assets include specific securities traded on major exchanges, mutual fund shares, and specific illiquid investments that are in the process of being liquidated during the wind down of a fund investment.

The Trust may invest in exchange traded funds and certain specific securities in any of the above strategies in situations of investment manager transitions, portfolio rebalancing, or portfolio completion.

## **5. FAIR VALUE MEASUREMENTS**

As required by ASC Topic 820, certain assets and liabilities are classified within the level of the lowest significant input considered in determining fair value. Assets and liabilities classified within Level 3 consider several inputs which may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

At June 30, 2020, the Foundation's assets and liabilities carried at fair value were classified as follows:

	Level 1	Level 2	Level 3	Other	Total
Assets:					
Short-term investments:					
Government and agency bonds and notes	\$ -	\$ 34,728,862	\$ -	\$ -	\$ 34,728,862
Investments:					
Investments—Foundation investment in					
The William and Mary Investment Trust:					
Common stock	88,295,372	-	-	-	88,295,372
Exchange traded funds	58,026,381	-	-	-	58,026,381
Private investment funds					
Absolute return	-	-	-	39,846,282	39,846,282
Domestic equity	-	-	-	77,879,891	77,879,891
Fixed income	-	-	-	25,733,715	25,733,715
Foreign equity (developed)	-	-	-	63,203,871	63,203,871
Foreign equity (emerging markets)	-	-	-	22,693,094	22,693,094
Private equity	-	-	-	110,025,994	110,025,994
Real assets	-	-	-	54,156,366	54,156,366
Special situations	-	-	-	36,184,576	36,184,576
Transitional trading	-	-	-	1,061,911	1,061,911
Short-term investments	29,634,080	-	-	-	29,634,080
Total Foundation investment in William and Mary Investment Trust	175,955,833	-	-	430,785,700	606,741,533
Cash pending investment	-	-	-	655,383	655,383
Common and preferred stocks and corporate bonds	138,632	-	-	-	138,632
Mutual and commingled funds	4,452,266	-	-	-	4,452,266
Government and agency bonds	-	1,591,504	-	-	1,591,504
Private equity and other	-	-	18,000	316,529	334,529
Real estate	-	-	987,982	-	987,982
Notes receivable	-	-	750,000	-	750,000
Total investments	180,546,731	1,591,504	1,755,982	431,757,612	615,651,829
Assets held in charitable remainder trusts	459,518	-	-	-	459,518
Funds held in trust by others:					
Equity securities	146,730,915	-	-	-	146,730,915
Mutual funds and other	2,951,517	-	-	-	2,951,517
Total funds held in trust by others	149,682,432	-	-	-	149,682,432
Fair value of assets	\$ 330,688,681	\$ 36,320,366	\$ 1,755,982	\$ 431,757,612	\$ 800,522,641
Liabilities—funds held for others	\$ 5,000,636	\$ -	\$ -	\$ 11,598,769	\$ 16,599,405
Fair value of liabilities	\$ 5,000,636	\$ -	\$ -	\$ 11,598,769	\$ 16,599,405

At June 30, 2019, the Foundation's assets and liabilities carried at fair value were classified as follows:

	Level 1	Level 2	Level 3	Other	Total
Assets:					
Short-term investments:					
Government and agency bonds and notes	\$ -	\$ 35,904,486	\$ -	\$ -	\$ 35,904,486
Investments:					
Investments—Foundation investment in					
The William and Mary Investment Trust:					
Common stock	76,618,211	-	-	-	76,618,211
Exchange traded funds	43,194,116	-	-	-	43,194,116
Private investment funds					
Absolute return	-	-	-	45,688,629	45,688,629
Domestic equity	-	-	-	72,524,853	72,524,853
Fixed income	-	-	-	23,518,546	23,518,546
Foreign equity (developed)	-	-	-	65,028,110	65,028,110
Foreign equity (emerging markets)	-	-	-	39,840,842	39,840,842
Private equity	-	-	-	99,935,070	99,935,070
Real assets	-	-	-	51,860,091	51,860,091
Special situations	-	-	-	38,762,534	38,762,534
Transitional trading	-	-	-	61,103	61,103
Short-term investments	47,707,247	-	-	-	47,707,247
Total Foundation investment in William and Mary Investment Trust	167,519,574	-	-	437,219,778	604,739,352
Cash pending investment	-	-	-	9,851,385	9,851,385
Common and preferred stocks and corporate bonds	547,685	-	-	-	547,685
Mutual and commingled funds	3,985,840	-	-	-	3,985,840
Government and agency bonds	-	1,535,533	-	-	1,535,533
Private equity and other	-	-	20,000	537,850	557,850
Real estate	-	-	987,982	-	987,982
Notes receivable	-	-	750,000	-	750,000
Total investments	172,053,099	1,535,533	1,757,982	447,609,013	622,955,627
Assets held in charitable remainder trusts	480,916	-	-	-	480,916
Funds held in trust by others:					
Equity securities	164,926,268	-	-	-	164,926,268
Mutual funds and other	3,342,646	-	-	-	3,342,646
Total funds held in trust by others	168,268,914	-	-	-	168,268,914
Fair value of assets	\$ 340,802,929	\$ 37,440,019	\$ 1,757,982	\$ 447,609,013	\$ 827,609,943
Liabilities—funds held for others	\$ 5,016,192	\$ -	\$ -	\$ 12,353,039	\$ 17,369,231
Fair value of liabilities	\$ 5,016,192	\$ -	\$ -	\$ 12,353,039	\$ 17,369,231

There were no additions or transfers in or out related to Level 3 investments for the years ended June 30, 2020 and 2019. The Foundation determines the fair value of transfers between levels using the most recent valuation.



## 6. ENDOWMENT

In accordance with ASC Topic 958 and UPMIFA, net assets associated with endowments and funds functioning as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The following table presents endowment net asset composition by type of fund as of June 30, 2020:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board designated endowment funds	\$ 20,715,610	\$ 67,922,397	\$ 88,638,007
Donor-restricted funds:			
Funds that allow distribution of principal	386,997	7,609,392	7,996,389
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	342,628,916	342,628,916
Accumulated investment gains	<u>-</u>	<u>152,980,710</u>	<u>152,980,710</u>
Total endowment funds	<u>\$ 21,102,607</u>	<u>\$ 571,141,415</u>	<u>\$ 592,244,022</u>

The following table presents endowment net asset composition by type of fund as of June 30, 2019:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board designated endowment funds	\$ 21,673,790	\$ 69,228,554	\$ 90,902,344
Donor-restricted funds:			
Funds that allow distribution of principal	405,020	8,251,874	8,656,894
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	323,136,148	323,136,148
Accumulated investment gains	<u>-</u>	<u>176,206,060</u>	<u>176,206,060</u>
Total endowment funds	<u>\$ 22,078,810</u>	<u>\$ 576,822,636</u>	<u>\$ 598,901,446</u>

The following table presents the change in endowment net assets for the year ended June 30, 2020:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets—beginning of year	<u>\$ 22,078,810</u>	<u>\$ 576,822,636</u>	<u>\$ 598,901,446</u>
Investment return—net	2,460,167	(5,241,099)	(2,780,932)
Contributions received		19,559,109	19,559,109
Appropriation of endowment assets for expenditure	(3,479,130)	(21,682,958)	(25,162,088)
Transfers to board-designated endowment funds	<u>42,760</u>	<u>1,683,727</u>	<u>1,726,487</u>
Endowment net assets—end of year	<u>\$ 21,102,607</u>	<u>\$ 571,141,415</u>	<u>\$ 592,244,022</u>

The following table presents the change in endowment net assets for the year ended June 30, 2019:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets—beginning of year	<u>\$ 21,850,146</u>	<u>\$ 545,126,563</u>	<u>\$ 566,976,709</u>
Investment return—net	3,623,343	26,472,060	30,095,403
Contributions received	-	23,879,447	23,879,447
Appropriation of endowment assets for expenditure	(3,437,089)	(20,261,131)	(23,698,220)
Transfers to board-designated endowment funds	<u>42,410</u>	<u>1,605,697</u>	<u>1,648,107</u>
Endowment net assets—end of year	<u>\$ 22,078,810</u>	<u>\$ 576,822,636</u>	<u>\$ 598,901,446</u>

The above amounts exclude \$16,336,324 and \$17,086,072 of investments in funds held for others as of June 30, 2020 and 2019, respectively.

**Funds with Deficiencies**—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies result largely from unfavorable market fluctuations that occurred after the establishment of endowments. There were no deficiencies as of June 30, 2019.

At June 30, 2020, the following funds with deficiencies were reported in net assets with donor restrictions:

Fair value of underwater endowment funds	\$ 39,405,820
Original endowment gift amount	<u>40,464,625</u>
Deficiencies of underwater endowment funds	<u>\$ (1,058,805)</u>

**Return Objectives and Risk Parameters**—The Foundation 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 enhance the inflation-adjusted purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested with an objective to achieve real growth of 2% over the long term (i.e., real total return less that of annual spending and management fees). The measure of inflation used in adjusting for real purchasing power is the Higher Education Price Index, a measure of college and university costs. The majority of the Foundation’s endowment funds are invested in the Trust, which follows an investment policy that is consistent with these objectives.

**Strategies Employed in Achieving Objectives**—To satisfy its long-term return objectives, the Trust follows a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Trust’s portfolio is highly diversified among asset classes, strategies, and investment managers. This diversification in holdings and manager relationships is intended as a means to consistently produce returns in excess of policy benchmarks with less concentration of risk. The Trust has established asset allocation ranges in each of its major asset classes within which policy targets are set and monitored against actual allocations.

**Spending Policy**—The Foundation sets a spending rate annually for its respective investment portfolios. For the years ended June 30, 2020 and 2019, the rate was applied to a trailing 20-quarter average market value through December 31 of the previous fiscal year to calculate the payout from investment pools available for current operations. The spending rate for the Foundation’s three discrete investment portfolios, Pooled Investments, Eminent Scholars, and Virginia Graduate and Undergraduate Assistance Program, is 4.75% for both the years ended June 30, 2020 and 2019. Other investment returns for current operations include income on funds without donor restrictions and funds restricted to the passage of time or for a specified purpose by the donor.

## **7. NOTES RECEIVABLE**

In July 2009, the Foundation agreed to advance a total of \$250,000 as a loan to support legal costs associated with the defense of certain claims made against two estates by one plaintiff. The Foundation is a potential beneficiary of the estates. The Foundation is joined by other parties in the loan. The agreement provides that the loan will be repaid, with interest at 5% per year, with first priority from assets received from the estates in the same proportion as amounts loaned by each party. During fiscal years 2010–2013, additional loans were extended on similar terms committing total additional amounts of

\$814,490 to support legal costs and to fund costs associated with maintenance of real estate constituting the primary asset of one of the estates. Interest was accrued on the notes receivable through June 30, 2015. The loans are recorded in notes receivable and had a carrying value of \$907,667 at June 30, 2020 and 2019, including interest.

## 8. PLEDGES RECEIVABLE

Unconditional promises to give are recorded as receivables at their net present value in the year promised and are recognized as temporarily restricted or permanently restricted support, as appropriate. Pledges receivable include amounts due from trustees and officers of the Foundation, which are considered related party transactions. Pledges receivable at June 30, 2020, have been discounted using discount rates ranging from 0.29% to 3.07%. Pledges receivable to be collected within one year have not been discounted. At June 30, 2020 and 2019, the net present value of pledges receivable was as follows:

	<b>2020</b>	<b>2019</b>
Less than one year	\$ 11,107,744	\$ 5,559,070
One to five years	32,256,777	10,511,582
More than five years	<u>435,207</u>	<u>728,809</u>
Total pledges receivable—gross	43,799,728	16,799,461
Less allowance for uncollectible amounts	<u>(1,788,343)</u>	<u>(542,791)</u>
Total pledges receivable—net of allowance	42,011,385	16,256,670
Discount to reduce pledges to present value	<u>(1,577,354)</u>	<u>(818,710)</u>
Pledges receivable—net	<u>\$ 40,434,031</u>	<u>\$ 15,437,960</u>

At June 30, 2020, a conditional promise to give of \$1,500,000, has not been recognized in the consolidated statement of financial position and statement of activities because the condition on which it depends has not yet been met. The contribution will be recognized upon certification that the building construction is substantially complete and ready for occupancy.

## 9. PROPERTY AND EQUIPMENT

The summary of property and equipment at June 30, 2020 and 2019, is as follows:

	<b>2020</b>	<b>2019</b>
Land and nondepreciable assets	\$ 2,280,527	\$ 2,280,527
Land improvements	338,138	338,138
Buildings and improvements	8,516,815	8,516,815
Equipment	927,781	927,782
Furniture and fixtures	429,170	429,170
Telecommunications system	5,982,625	6,010,388
Other	<u>55,792</u>	<u>55,792</u>
Total	18,530,848	18,558,612
Less accumulated depreciation	<u>(10,115,867)</u>	<u>(9,685,324)</u>
Property and equipment—net	<u>\$ 8,414,981</u>	<u>\$ 8,873,288</u>

## 10. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others represent resources neither in the possession nor under the control of the Foundation but held and administered by outside fiscal agents, with the Foundation deriving income from such funds. The balance is comprised of three trusts, the most significant of which is derived from the bequest of Lettie Pate Evans, which provides a distribution of 5% of the annual net income of the Lettie Pate Evans Foundation, Inc. At June 30, 2020 and 2019, the fair value of the Foundation's interest was reported as \$145,317,683 and \$163,875,596, respectively. The Lettie Pate Evans Foundation, Inc. has specified that the annual income distributed to the Foundation may be used for the benefit of the University in such manner as the governing board of the Foundation may determine.

## 11. NOTES PAYABLE

During the year ended June 30, 2009, the Foundation entered into a borrowing arrangement with Truist Bank (formerly SunTrust Bank) in the amount of \$2,636,140 for renovation of the University's Admissions Office. The terms of the loan were revised during the year ended June 30, 2011. Under the revised terms, interest accrues at a rate of 4.99% and is payable monthly. Principal is payable annually over a ten year term, with the final amount due on February 1, 2021. Truist Bank is granted a security interest in all deposits and investments maintained with Truist and any of its affiliates. The terms of the note require the Foundation to maintain at all times net assets without donor restrictions and net assets restricted by the donor due to the passage of time or for a specified purpose and subject to the Foundation's spending policy and appropriation in excess of 200% of the Foundation's total funded debt. The balance outstanding at June 30, 2020 and 2019, was \$325,003 and \$634,560, respectively. The balance outstanding as of June 30, 2020 is due in the year ending June 30, 2021. Interest paid on the loan during the years ended June 30, 2020 and 2019, was \$25,713 and \$40,891, respectively.

The Foundation and its affiliates are in compliance with all debt covenants.

The carrying value of the above debt approximates fair value.

## 12. DEFERRED COMPENSATION PLAN

During the year ended June 30, 2009, the Foundation entered into a deferred compensation agreement with then President of the University. The arrangement is unfunded and intended to comply with ERISA and Internal Revenue Code Sections 409A and 457(f). As of June 30, 2020 and 2019, a liability of \$452,528 and \$626,214, respectively, has been recorded.

## 13. BONDS PAYABLE

In December 2011, the Economic Development Authority of James City County, Virginia ("Authority") issued a revenue refunding bond in the amount of \$8,090,000 ("Series 2011 Bond"), and loaned the proceeds to the Foundation and CWMF Ventures ("Obligors"). The Series 2011 Bond was acquired by Truist Bank, as Series 2011 Bondholder. Proceeds from the sale of the Series 2011 Bond were used to redeem bonds issued in December 2006 by the Authority to finance the cost of property acquisition, construction and equipping of a three-story building in New Town in James City County, Virginia, for use by the Foundation, CWMF Ventures or the University. The Series 2011 Bond bore interest at a fixed rate of 2.96% per annum through December 31, 2017. As of January 1, 2018, the Series 2011 Bond bears interest at a fixed rate of 3.59752% per annum, subject to the put rights of the Series 2011 Bondholder as described below, and interest payments are due quarterly on each January 1, April 1, July 1 and October 1. The Series 2011 Bondholder has the option to tender the Series 2011 Bond for payment on December 1, 2021, the first optional put date, unless extended under the terms of the loan agreement to not earlier than December 1, 2026. An additional extension may be made to not earlier than December 1, 2031. The final maturity date is December 1, 2036. The Obligors are required to maintain at all times net assets without donor restrictions and net assets restricted by the donor due to the passage of time or for a specified purpose and subject to the Foundation's spending policy and appropriation in excess of 200% of the total funded debt of the Obligors.

The following represents the face value of bonds and unamortized bond issuance costs as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Face amount of bonds	\$ 8,090,000	\$ 8,090,000
Unamortized bond issuance costs	<u>(12,823)</u>	<u>(21,372)</u>
 Bonds payable	 <u>\$ 8,077,177</u>	 <u>\$ 8,068,628</u>

Interest expense, including amortization of bond issuance costs, on the Series 2011 Bond during the years ended June 30, 2020 and 2019, was \$304,439 and \$303,630, respectively.

The Foundation is in compliance with all bond covenants.

#### 14. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions were designated for endowment for the following purposes:

	<b>2020</b>	<b>2019</b>
Institutional support	\$ 13,231,290	\$ 13,847,475
Student life and other	595,821	621,952
Scholarships and fellowships	<u>7,275,496</u>	<u>7,609,383</u>
Total	<u>\$ 21,102,607</u>	<u>\$ 22,078,810</u>

#### 15. NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2020 and 2019, net assets with donor restrictions are restricted for the following purposes:

	<b>2020</b>	<b>2019</b>
Restricted in perpetuity:		
For endowment:		
Instruction	\$ 75,312,748	\$ 75,405,830
Research	10,521,464	10,187,463
Public service	772,645	772,645
Academic support	35,023,500	32,422,625
Student life and other	18,649,115	17,439,819
Institutional support	4,209,986	3,797,260
Plant and facilities	3,636,564	3,177,254
Scholarships and fellowships	146,833,341	132,698,149
General operations	36,788,535	36,687,877
Requiring reinvestment of income until year 2076	<u>10,881,018</u>	<u>10,547,226</u>
Total restricted in perpetuity for endowment	342,628,916	323,136,148
Deferred gifts	6,253,383	7,384,252
Pledges receivable and other	8,542,854	7,950,971
Funds held in trust by others	<u>149,682,432</u>	<u>168,268,914</u>
Total restricted in perpetuity	507,107,585	506,740,285

(Continued)

	<b>2020</b>	<b>2019</b>
Restricted for specified purpose or to the passage of time:		
Designated for endowment:		
Instruction	\$ 26,436,484	\$ 26,878,775
Research	2,785,202	2,725,090
Public service	224,753	203,599
Academic support	11,548,706	12,019,089
Student life and other	5,974,229	6,190,907
Institutional support	2,209,469	2,250,832
Plant and facilities	1,475,030	1,748,743
Scholarships and fellowships	22,942,931	23,438,295
General operations	<u>1,934,985</u>	<u>2,025,098</u>
Total designated for endowment	75,531,789	77,480,428
Subject to expenditure for specified purpose or to the passage of time:		
Instruction	7,355,813	7,101,388
Research	3,374,168	2,501,601
General	7,000	-
Public service	123,393	113,487
Academic support	11,900,221	6,823,415
Student life and other	1,152,037	1,118,389
Institutional support	1,335,417	1,671,239
Plant and facilities	53,261,803	35,122,870
Scholarships and fellowships	<u>4,499,472</u>	<u>3,347,660</u>
Total subject to expenditure for specified purpose or to the passage of time	83,009,324	57,800,049
Deferred gifts	<u>3,690,802</u>	<u>3,604,846</u>
Total restricted for specified purpose or to the passage of time	162,231,915	138,885,323
Restricted subject to the Foundation's spending policy and appropriation:		
Instruction	45,551,015	51,763,462
Research	1,606,684	2,199,774
Public service	726,488	796,303
Academic support	8,920,794	10,836,580
Student life and other	6,398,171	7,509,386
Institutional support	3,653,259	3,996,676
Plant and facilities	1,170,831	1,374,819
Scholarships and fellowships	70,374,298	80,760,587
General	<u>14,579,170</u>	<u>16,968,473</u>
Total restricted subject to the Foundation's spending policy and appropriation	152,980,710	176,206,060



	<b>2020</b>	<b>2019</b>
Invested in property and equipment—net of related debt, used for:		
Instruction	\$ 4,008	\$ 4,150
Research	867,575	904,494
Academic support	1,353,500	1,353,500
General	<u>97,872</u>	<u>99,246</u>
 Total invested in property and equipment—net of related debt	 <u>2,322,955</u>	 <u>2,361,390</u>
 Total net assets with donor restrictions	 <u>\$ 824,643,165</u>	 <u>\$ 824,193,058</u>

(Concluded)

## 16. NET ASSETS RELEASED FROM RESTRICTIONS

The following table presents net assets that were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors:

	<b>2020</b>	<b>2019</b>
Purpose restriction accomplished or time restriction expired	\$ 21,273,300	\$ 13,425,977
Appropriation of endowment amounts and subsequent satisfaction of donor-related restrictions	<u>19,088,565</u>	<u>18,867,821</u>
 Total net assets released from restrictions	 <u>\$ 40,361,865</u>	 <u>\$ 32,293,798</u>

## 17. OTHER MATTERS

**Concentration of Risk**—Financial instruments, which potentially subject the Foundation to concentration of risk, consist primarily of an equity investment in a large U.S. company. This investment comprised 76.64% and 80.72% of total funds held in trust by others as of June 30, 2020 and 2019, respectively. The trustees of the Foundation have no control over this investment.

Amounts on deposit with one federally insured financial institution in excess of the \$250,000 insurance limit as of June 30, 2020 and 2019, for each entity are as follows:

	<b>2020</b>	<b>2019</b>
William & Mary Foundation	\$ 2,932,162	\$ -
College Enterprises, Inc.	978,676	1,424,594
CWMF Ventures, Inc.	-	84,225

## 18. EXPENSE CLASSIFICATION MATRIX

The composition of the Foundation's operating expenses by natural and functional classification for the year ended June 30, 2020, is as follows:

	Compensation and Benefits	Conferences, Travel, Training and Development	Equipment, Supplies and Services	Occupancy and Utilities	Interest, Insurance and Taxes	Depreciation	Provided to Related Organizations	Provided / Conveyed to the University	Total Expenses
Expenses:									
Program services:									
Instruction	\$ -	\$ 1,726	\$ -	\$ -	\$ -	\$ -	\$ 12,932	\$ 5,799,369	\$ 5,814,027
Research	-	-	3,449	-	-	-	1,062	713,921	718,432
Public service	-	-	-	-	-	-	-	36,734	36,734
Academic support	-	44,372	4,928	204,752	-	-	11,340	2,603,135	2,868,527
Institutional support	-	159,126	142,660	-	49,647	-	178,268	1,001,701	1,531,402
Athletic programs	-	-	-	-	-	-	-	1,215,138	1,215,138
Student life and other	-	-	-	-	-	-	-	295,016	295,016
Plant and facilities	-	22,472	64,459	103,435	348,909	196,941	18,736	17,978,005	18,732,957
Scholarships and fellowships	-	-	-	-	-	-	6,500	10,607,605	10,614,105
Technology—CEI	-	19,550	687,191	185,230	-	221,854	-	-	1,113,825
Total program services	-	247,246	902,687	493,417	398,556	418,795	228,838	40,250,624	42,940,163
Supporting services—fundraising	226,983	161,554	458,649	191,091	5,762	2,209	93,738	5,098,885	6,238,871
Administrative and general:									
Board expenses	-	24,753	19,452	838	-	-	530	3,053	48,626
Office of Investment Administration	667,598	3,734	167,541	66	80,578	-	-	12,930	932,447
Expenses of the Real Estate Foundation, Inc.	-	-	8,887	6,857	3,249	37,302	-	3,115	59,410
Expenses of Reliance Holdings, LLC	-	-	2,035	-	13	-	-	-	2,048
Other	-	-	686,372	-	138,802	-	-	-	825,174
Total administrative and general	667,598	28,487	884,287	7,761	222,642	37,302	530	19,098	1,867,705
Total supporting services	894,581	190,041	1,342,936	198,852	228,404	39,511	94,268	5,117,983	8,106,576
Total expenses	\$ 894,581	\$ 437,287	\$ 2,245,623	\$ 692,269	\$ 626,960	\$ 458,306	\$ 323,106	\$ 45,368,607	\$ 51,046,739

The composition of the Foundation's operating expenses by natural and functional classification for the year ended June 30, 2019, is as follows:

	Compensation and Benefits	Conferences, Travel, Training and Development	Equipment, Supplies and Services	Occupancy and Utilities	Interest, Insurance and Taxes	Depreciation	Provided to Related Organizations	Provided / Conveyed to the University	Total Expenses
Expenses:									
Program services:									
Instruction	\$ -	\$ 12,730	\$ 4,764	\$ -	\$ -	\$ -	\$ 11,702	\$ 5,873,930	\$ 5,903,126
Research	-	-	3,184	-	-	-	-	655,325	658,509
Public service	-	-	9,000	-	-	-	-	31,109	40,109
Academic support	-	46,140	78,913	195,687	-	-	13,147	2,307,276	2,641,163
Institutional support	-	213,260	192,580	3,821	48,391	-	173,781	682,922	1,314,755
Athletic programs	-	-	-	-	-	-	-	1,162,053	1,162,053
Student life and other	-	-	-	-	-	-	-	197,889	197,889
Plant and facilities	-	21,806	66,683	107,142	362,111	197,134	1,193,419	9,534,732	11,483,027
Scholarships and fellowships	-	-	-	-	-	-	3,980	10,459,516	10,463,496
Technology—CEI	-	9,775	1,675,478	142,092	-	261,028	-	842,751	2,931,124
	<u>-</u>	<u>303,711</u>	<u>2,030,602</u>	<u>448,742</u>	<u>410,502</u>	<u>458,162</u>	<u>1,396,029</u>	<u>31,747,503</u>	<u>36,795,251</u>
Total program services	-	303,711	2,030,602	448,742	410,502	458,162	1,396,029	31,747,503	36,795,251
Supporting services—fundraising	-	450,728	401,106	213,952	5,566	2,209	63,892	5,678,710	6,816,163
	<u>-</u>	<u>450,728</u>	<u>401,106</u>	<u>213,952</u>	<u>5,566</u>	<u>2,209</u>	<u>63,892</u>	<u>5,678,710</u>	<u>6,816,163</u>
Administrative and general:									
Board expenses	-	48,546	24,038	-	-	-	293	2,123	75,000
Office of Investment Administration	775,909	24,149	152,569	81	47,853	-	-	13,408	1,013,969
Expenses of the Real Estate Foundation, Inc.	-	100	10,492	2,117	3,117	36,918	-	-	52,744
Expenses of Reliance Holdings, LLC	-	-	1,968	-	14	-	-	-	1,982
Other	133,175	5,000	34,085	-	152,346	-	-	-	324,606
	<u>909,084</u>	<u>77,795</u>	<u>223,152</u>	<u>2,198</u>	<u>203,330</u>	<u>36,918</u>	<u>293</u>	<u>15,531</u>	<u>1,468,301</u>
Total administrative and general	909,084	77,795	223,152	2,198	203,330	36,918	293	15,531	1,468,301
Total supporting services	909,084	528,523	624,258	216,150	208,896	39,127	64,185	5,694,241	8,284,464
	<u>909,084</u>	<u>528,523</u>	<u>624,258</u>	<u>216,150</u>	<u>208,896</u>	<u>39,127</u>	<u>64,185</u>	<u>5,694,241</u>	<u>8,284,464</u>
Total expenses	\$ 909,084	\$ 832,234	\$ 2,654,860	\$ 664,892	\$ 619,398	\$ 497,289	\$ 1,460,214	\$ 37,441,744	\$ 45,079,715

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. These expenses require allocation on a reasonable basis that is consistently applied. Compensation and benefits, including amounts provided/conveyed to the University or related organizations to support compensation and benefits, are allocated on the basis of estimates of time and effort. Insurance is allocated on the basis of estimates of the values of the properties covered.

## 19. LEASE AND RENT EXPENSE

The Foundation leases office space in Washington, DC, New York, NY, and Arlington, VA, under non-cancelable agreements. Future minimum lease payments under these agreements are:

2021	\$	202,580
2022		196,753
2023		<u>26,315</u>
Total	\$	<u>425,648</u>

Total rent expense for all operating leases for the years ended June 30, 2020 and 2019, was \$379,050 and \$413,215, respectively.

## 20. INCOME TAXES

The Foundation, CEI and the 1693 Foundation are nonstock corporations which have been determined by the Internal Revenue Service to be exempt from taxes on income derived from activities related to its exempt purpose under Section 501(c)(3) of the Internal Revenue Code. The REF is a stock corporation, wholly owned by the Foundation, which has been determined by the Internal Revenue Service to be exempt from taxes on income derived from activities related to its exempt purpose under Section 501(c)(2) of the Internal Revenue Code. Reliance is a limited liability company which is not disregarded for tax purposes, and therefore is subject to tax. CWMF Ventures, Foundation Services and 1693 Management are disregarded entities for income tax purposes, and all activity is reported on the Foundation's tax return.

ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in financial statements. ASC Topic 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing tax returns of the Foundation, CEI, REF and Reliance to determine whether the tax positions will "more-likely-than-not" be sustained by the applicable tax authority. As a result, tax positions not meeting the more-likely-than-not threshold would result in a current year expense or the absence of a benefit, as appropriate for the tax position. The Foundation has concluded that no provision for income tax is required in the Foundation's financial statements for the years ended June 30, 2020 and 2019.

As of June 30, 2019, the Foundation had federal net operating losses available for carryforward in the amount of \$2,137,727 as a result of unrelated business taxable income ("UBTI") resulting from investments in The William and Mary Investment Trust. UBTI is taxed at the prevailing corporate tax rate. Reliance had a net operating loss carryforward of \$115,412 as of June 30, 2019. The loss carryforwards begin to expire in 2027. Due to the uncertainty about whether these losses will result in a tax asset, no tax asset is recorded in the financial statements. Net operating losses arising in tax years ending after December 31, 2017 have an indefinite carryforward period. Losses arising in earlier tax years have a carryforward period of twenty years. Losses arising in tax years beginning after December 31, 2017 are limited to 80% of taxable income in the year deducted. The filing deadline for the June 30, 2020 return is May 17, 2021. In addition to the fiscal year ended June 30, 2020, the years ended June 30, 2019, 2018, and 2017 are open for inspection by the taxing authorities.

## **21. RELATED PARTY TRANSACTIONS**

Pledges receivable from trustees and officers of the Foundation at June 30, 2020 and 2019, totaled \$18,609,500 and \$3,876,758, respectively, and are considered related party transactions. Gift receipts from trustees and officers, including payments on pledges, totaled \$2,049,346 and \$1,674,540 for the years ended June 30, 2020 and 2019, respectively.

The Foundation leases certain property to the University for dormitories and office space. Total rent income during the years ended June 30, 2020 and 2019, was \$901,501 and \$874,417, respectively.

The Trust invests in certain private investment funds in which a former member of the Board and Investments Committee of the Foundation is an officer and a managing partner. The member of the Board and Investments Committee completed their term on the Board during the year ended June 30, 2019. The total invested in these private investment funds as of June 30, 2019 was \$4,906,917. Total outstanding commitment (uncalled capital) to the funds as of June 30, 2019 was \$1,418,574. Total management fees for the year ended June 30, 2019 were \$102,316. Before investing in these funds, management followed guidelines and procedures prescribed by the Foundation's Conflict of Interest Policy ensuring full disclosure of such relationships.

## **22. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 15, 2020, the date the consolidated financial statements were available to be issued.

On July 1, 2020, the Foundation executed a note payable to Truist Bank in the amount of \$2,100,000. The proceeds will be used to fund a new client relationship management system implementation project. The note is unsecured and accrues interest at a rate of 4.56% per annum payable monthly. Beginning on July 1, 2021, the note shall be paid on a fixed payment schedule consisting of equal monthly installments of principal and interest. The final payment is due on July 1, 2030.

On July 1, 2020, the Foundation executed an open end revolving line of credit with Truist Bank in the amount of \$5,000,000. The line of credit is unsecured. Interest accrues at a floating rate per annum equal to the LIBOR rate plus 1.65% and is payable monthly beginning August 1, 2020. There have been no advances from the line of credit to date. The line of credit is also subject to an unused commitment fee equal to 0.20% per annum. Principal is payable in full on June 30, 2021.

On September 3, 2020, the University announced that it will discontinue seven sports effective for the 2021-22 academic year. The Foundation holds approximately 70 donor funds supporting the seven sports and student athletes with an estimated value of \$10.7 million as of June 30, 2020. The Foundation is evaluating the impact of the University's announcement to the donor funds in accordance with the gift agreements, Foundation policy, and UPMIFA guidelines.

The Foundation has created the 1693 Partners Fund (the "Fund"), a 501(c)(3) tax-exempt Virginia nonstock corporation. The Foundation has provided notice that it will be transferring its interest in the Trust to the Fund. It is expected that the grantors of the Trust will either withdraw from the Trust or transfer their interest to the Fund and that the Trust will transfer its investments to the Fund during the year ending June 30, 2021, at which time the Trust will be terminated.

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