FINANCIAL REPORT 2021-22

GONZAGA
UNIVERSITY

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Greetings from Gonzaga University!

Something is bringing you to this moment in time where you are about to read a letter written by some "geek" in finance at Gonzaga University. Maybe you are a student, a parent, or an alum. Perhaps you are a stakeholder in Gonzaga's financial performance, such as a vendor, bondholder, accrediting agent, or benefactor. In whatever way you have come to know or be in relationship with Gonzaga University, I thank you for your interest in our community.

Year-after-year it's the Gonzaga community that sustains and moves us forward. Our mission calls us to educate students for lives of leadership and service for the common good informed by our Catholic, Jesuit, and humanistic heritage and identity. At a time when much in our nation and in our world feels unsettled and broken, I am grateful for the opportunity to be part of this ministry, a teaching and learning community animated by the pursuit of the common good.

Our work is not without challenges. Last year, my annual letter was dominated by the realities of COVID-19 and the direct and indirect impacts of navigating all the facets of a university during a pandemic. While COVID-19 remains a part of our current reality, we have shifted to adopting more endemic practices to mitigate its spread, allowing the University to function on a day-to-day basis in ways that more closely reflect pre-pandemic norms. Through it all, Gonzaga University remained committed to delivering on its commitments to its students, remaining steadfast in mission and flexible in approach.

As depicted on the cover of this report, we once again began the 2021-22 academic year by inviting our new students to campus with the "Welcome Walk" in front of College Hall, followed by our Academic Convocation at St. Aloysius Church. We closed the year celebrating our graduates with full in-person and indoor commencement ceremonies, including welcoming back our class of 2020 graduates who were unable to partake in an in-person commencement celebration. The return of these rituals carried special meaning for all participants.

Following are a handful of achievements from fiscal year 2021-22:

- The University completed the John and Joan Bollier Family Center for Integrated Science and Engineering (the Bollier Center) in January 2022. The Bollier Center adds more than 82,000 square-feet of space dedicated to student learning in the sciences, technology, engineering, and mathematics on Gonzaga's campus, with special focus on providing opportunities for cross-disciplinary collaboration.

- Together with our development partner McKinstry and academic partner the University of Washington, the University of Washington School of Medicine – Gonzaga University Health Partnership facility opened in June 2022. This 90,000 square foot facility, immediately adjacent to campus, includes classrooms, an anatomy suite, research labs and administrative offices to support 120 first and second year University of Washington medical students and more than 500 undergraduate students in the health sciences.

- Gonzaga Family Haven, an affordable and permanent housing community designed to house 73 families, opened in April 2022. Gonzaga Family Haven is a partnership between Catholic Charities, Gonzaga Preparatory School (Gonzaga Prep), and St. Aloysius Parish and is located two miles north of the University and adjacent to Gonzaga Prep. Gonzaga University students provide tutoring and other early childhood assistance as community volunteers. Gonzaga Family Haven is one of many collaborative projects taking shape as part of the University's place-based initiative called Opportunity Northeast, focused on improving outcomes for children, youth and families in Northeast Spokane.

- The University is ranked among the top 100 national universities by U.S. News and World Report in its 2022 ranking (79th overall, top 20%) and ranked 13th in the category for best undergraduate teaching, placing it in the top 5%.

- Among the many former student athletes drafted by a team in a professional sports league, two became the highest draft picks in Gonzaga history – Chet Holmgren was drafted #2 overall in the NBA (basketball) entry draft and Gabriel Hughes was selected #10 overall in the MLB (baseball) entry draft.

Following is a summary of the financial performance for the fiscal year ended May 31, 2022.

Consolidated Statement of Financial Position

Assets

Assets totaling $1.082 billion as of May 31, 2022, increased $32.6 million or 3.1% from the prior fiscal year. Total assets are comprised largely of cash and short-term investments, contributions receivable, long-term investments (primarily related to the endowment), and campus facilities.

Cash and cash equivalents and short-term investments totaled $101.5 million as of May 31, 2022, an increase of $3.7 million or 3.8% from the prior fiscal year. These resources provide essential liquidity to cover operating costs, project funds to construct and maintain campus facilities, and capacity to satisfy debt service payments. Additionally, the funds support strategic plan initiatives and fund contingencies and reserves. Notable non-recurring cash changes included receipt of $4.4 million for institutional use from the Higher Education Emergency Relief Fund III (HEERF III) used to reimburse the University for lost revenues and a transfer out of $20.0 million of operating funds to be invested as long-term investments. The remaining changes are the result of cash generated from operations, cash receipts from gifts, changes in investments, capital spending, debt payments, and other activity.

Contributions receivable, net totaled $40.6 million as of May 31, 2022, an increase of $2.7 million or 7.2% from the prior fiscal year. Of this amount, $37.2 million (undiscounted) is expected to be collected within the next five years.

Long-term investments and beneficial interest in split interest agreements held by others totaled $497.2 million, an increase of $30.2 million or 6.5% from the prior fiscal year. Such amounts represent 46.0% of total assets as of May 31, 2022 and are substantially comprised of endowment assets. The net return on the diversified endowment investment pool was -0.1% for the fiscal year, trailing the University's policy index by 130 basis points. Additional drivers of the year over year change included new endowment gifts of $16.1 million, a transfer in of $20.0 million of operating funds to be invested on a long-term basis, offset by an annual spending distribution of $12.6 million. The pooled endowment is invested on a total return basis to provide a long-term annual return equal to, or in excess of, the annual spending distribution plus inflation. The strategic target asset allocation of the endowment is domestic equities (21%), international equities (19%), fixed income (20%), alternative investments (30%) and real assets (10%). The pooled endowment achieved annualized net returns ranking among the top 5% of higher education institutions nationwide for the three-, five-, and ten-year periods ending June 30, 2021 (the most currently available data) [1]. The ten-year annualized net return was 11.2% as of June 30, 2021, or 270 basis points higher than the NTSE average for all participants.

[1] *Source: NACUBO TIAA Study of Endowments® (NTSE), 2021*

Property, plant, and equipment, net, totaled $404.0 million as of May 31, 2022, an increase of $0.8 million or 0.2% from the prior fiscal year. The University continues to invest in its physical facilities to support key academic initiatives, student services, housing, and overall infrastructure. The University completed the Bollier Center, resulting in fiscal year 2021-22 additions of $11.5 million along with other capital improvements, offset by depreciation expense of $18.2 million. The University incorporates renewal and replacement spending within its annual operating budget in order to maintain a 152 acre main campus of more than 100 buildings.

Liabilities

Liabilities totaled $327.9 million as of May 31, 2022, an increase of $7.6 million or 2.4% from the prior fiscal year.

Accounts and other payables totaled $11.3 million as of May 31, 2022, a decrease of $2.4 million or 17.5% from the prior fiscal year, largely driven by a decrease in construction-related payables as compared to the prior fiscal year. Accrued salaries, taxes, and benefits totaled $26.7 million as of May 31, 2022, a decrease of $0.9 million from the prior fiscal year.

In addition to shorter-term obligations to vendors, creditors, and employees, along with deferred revenues and refundable advances, the most significant liabilities are notes and bonds payable. Notes and bonds payable are largely used to finance the construction and acquisition of property, plant, and equipment. As of May 31, 2022, notes and bonds payable increased $8.2 million or 3.6%, driven by principal payments of $2.0 million and net new borrowings of $10.2 million (inclusive of debt issuance costs and premium). All bonds payable are 100% fixed rate instruments, which provides a high degree of certainty as to the annual debt service payments given that such rates are not subject to variability. Together, the overall debt portfolio represents a 4.13% weighted average cost of borrowed funds. Gonzaga's currently scheduled annual total debt service through fiscal year 2033-34 remains largely flat, ranging between $10.3 million and $11.5 million per fiscal year. Selected bonds are rated by Moody's Investor Service and Fitch Ratings and carry an "A2" (outlook stable) and "A+" (outlook stable), respectively.

Net Assets

Net assets were $753.9 million as of May 31, 2022, an increase of $25.0 million or 3.4% from the prior fiscal year. The three primary drivers of annual changes in net assets are 1) the net change from operating activities; 2) net investment return of the endowment and other long-term investments, after the annual spending distribution; and 3) contributions towards non-operating activities, such as acquisition of capital assets and endowment contributions.

Net assets without donor restrictions totaled $338.7 million as of May 31, 2022, an increase of $13.2 million or 4.1% from the prior year. The increase is due to income from operating activities of $6.2 million and net gains from non-operating activities of $7.0 million resulting largely from net assets released from restrictions for the acquisition of capital assets.

Net assets with donor restrictions for time or purpose totaled $222.3 million as of May 31, 2022, a decrease of $4.6 million or 2.0% from the prior year. The decrease was due primarily to grants and contracts of $10.1 million and contributions of $26.6 million, offset by the release of restrictions of $40.9 million, among other changes.

Net assets with donor restrictions in perpetuity totaled $193.0 million as of May 31, 2022, an increase of $16.4 million or 9.3% from the prior fiscal year. The increase was due largely to new contributions to the endowment fund of $16.1 million.

Consolidated Statement of Activities

The University categorizes changes in its net assets as either operating activities or non-operating activities, each of which is summarized below:

Operating Activities

For the year ended May 31, 2022, total operating activities resulted in a $15.5 million increase in net assets, compared with a $5.7 million increase in the prior fiscal year. For the years ended May 31, 2022 and 2021, the operating margin (calculated as increase in net assets from operations divided by total operating revenues) was 5.7% and 2.5%, respectively, and the operating cash flow margin (calculated as the sum of increase in net assets from operations, depreciation, amortization, and interest paid divided by total operating revenues) was 15.9% and 14.6%, respectively.

For the year ended May 31, 2022, total operating revenues increased $46.2 million or 20.2% from the prior fiscal year. The most significant component of operating revenues is student tuition and fees, net of institutional financial aid, which increased $14.2 million or 8.9% from the prior fiscal year. The change is driven by an increase in undergraduate net tuition revenue (excluding Gonzaga in Florence) of $2.7 million, the net result of a 3.3% tuition rate increase, an increase in undergraduate enrollment (fall) of 27 students, stable retention rates, offset by a slightly higher tuition discount rate for the freshmen class. The Fall 2021 freshmen class was 1,311 students, up 261 students from the prior year freshmen cohort, largely driven by the uncertainty associated with COVID-19 impacting the Fall 2020 cohort. Net tuition revenue was negatively impacted in fiscal year 2021 by the loss of all revenues from Gonzaga in Florence due to the suspension of international travel for the entire fiscal year in light of COVID-19. Gonzaga in Florence gross tuition revenue (prior to financial aid) was $6.7 million in fiscal year 2022. Graduate net revenues, including law, increased by $1.7 million due largely to an increase in overall credit generation of 3.3% and changes in tuition per graduate credit that vary by program.

Three other categories of operating revenues were impacted in both fiscal year 2022 and fiscal year 2021 by COVID-19—auxiliary enterprises, other sources, and grants and contracts. Revenues from auxiliary enterprises, principally comprised of housing and dining revenue, increased $9.9 million or 46.6% from the prior year. The University suspended, on a temporary basis, the on-campus residency requirement for freshmen and sophomores during fiscal year 2021. The University began the 2020 academic year with 2,050 students in campus-owned housing, with an occupancy rate of 66% as compared to a traditional year of approximately 95% occupancy. Spring semester 2021 occupancy improved to 70%. Residency requirements were reinstated for fiscal year 2022, with occupancy returning to pre-pandemic levels. Auxiliary revenues were also negatively impacted in fiscal year 2021 by $1.4 million due to the refunding of approximately three weeks of fall semester housing and dining revenues for any on-campus students choosing to return home for Thanksgiving.

Revenue from other sources increased $8.0 million or 72.8% from the prior year, which are largely derived from athletics, rentals, commissions, royalties, rebates, parking, and other sales and services. The primary drivers of this variance results from the fiscal year 2021 loss of substantially all rental revenues from conferences, camps and other on-campus events, and loss of all season ticket revenue for men’s and women’s basketball due to COVID-19.

Grants and contracts revenue increased $4.8 million or 87.9% over the prior fiscal year. In fiscal year 2022, the University received $8.8 million of federal stimulus funds under HEERF III, of which $4.4 million was used to offset lost revenues and cover pandemic-related expenses and $4.4 million was used to award COVID-19 relief directly to eligible students. In fiscal year 2021, the University received $4.1 million of federal stimulus under HEERF II, of which $2.7 million was used to offset lost revenues and $1.4 million was used to award COVID-19 relief directly to eligible students.

While operating revenues come largely from student tuition and fees and associated auxiliary revenues, contributions and endowment distributions are important revenue diversifiers that help offset the cost of a Gonzaga education for all students, particularly to support institutional financial aid. Total contributions to support operations increased $11.1 million or 63.4% from the prior year, including a one-time unrestricted gift of $5.0 million. Endowment distributions also increased year over year by $1.3 million or 11.9% driven by investment growth, new gifts and inflation, all of which serve as inputs to the annual endowment spending calculation.

For the year ended May 31, 2022, total operating expenses increased $36.4 million or 16.3% from the prior fiscal year. Many expense categories saw increases in the current fiscal year when compared to the prior year due to the resumption of recurring activities such as meetings and travel along with a full return of on-campus residency requirements for freshmen and sophomores. Such categories of expenditures were substantially reduced in fiscal year 2021 due to the COVID-19 pandemic. Salaries, wages, and benefits—the largest category of expense—increased $12.7 million or 8.6%, due to a resumption of regular annual compensation increases for faculty and staff following a fiscal year where no such increases were awarded, increased expenditures for employee medical benefits, and other compensation increases resulting from changes in minimum wage and hiring benchmarks. Both fiscal years 2022 and 2021 experienced higher than normal levels of employee vacancies, due largely to regional and national patterns referred to as the “Great Resignation.” There were no reductions in force, furloughs, or reductions in employee benefits in response to COVID-19. During fiscal years 2022 and 2021, the University incurred $1.6 million and $6.3 million, respectively, of direct and incremental expenses related to COVID-19, with such activities and amounts included in the following categories:

FY 2022 (in millions)	FY 2021 (in millions)	Nature of Activity	Line item on the Consolidated Statement of Activities
$0.1	$0.4	Personnel to support contact tracing and other direct COVID-19 support	Salaries, wages, and benefits
$0.4	$2.6	COVID-19 testing	Professional fees and contracted services
$1.0	$1.3	Facility rental for isolation and quarantine	Occupancy, utilities, and maintenance
$0.1	$2.0	Technology, personal protective equipment, signage, and cleaning supplies	Materials, supplies, printing, and postage

Certain of the costs noted above are eligible for reimbursement from the Federal Emergency Management Agency (FEMA) and the University is actively pursuing reimbursement and any such reimbursements will be recorded in the year received.

Non-Operating Activities

In addition to operations, Gonzaga reports other changes in net assets from those activities that are not directly attributable to its annual operations. Return on investments, net of endowment income distributed for operating activities was a net loss of $10.2 million for the year ended May 31, 2022, a substantial decrease from the prior fiscal year net gain of $106.3 million. Contributions for the acquisition of capital assets, net and contributions for endowment funds, net were $20.5 million for the year ended May 31, 2022, an increase of $8.1 million or 64.8% compared to the prior fiscal year.

Closing

I am grateful for the ongoing work of our faculty and staff and amazed at the accomplishments of our students. I also wish to extend a special thanks to our accounting and finance teams and other supporting colleagues who together make the preparation of this annual financial report possible.

Faithfully,

Joe

Joe Smith, CPA, CGMA
Chief Financial Officer

August 2022

Selected Data (in thousands) (unaudited)

The following data reflects selected financial and nonfinancial data for the past five fiscal years. Amounts are derived from the audited consolidated financial statements and other official University sources.

As of May 31	2022	2021	2020	2019	2018
Consolidated Statement of Financial Position Data					
Cash, cash equivalents, and short-term investments	$ 101,473	$ 97,772	$ 91,786	$ 74,421	$ 88,650
Contributions receivable, net	40,597	37,856	35,936	37,086	32,020
Long-term investments [1]	497,222	467,059	325,460	318,456	305,548
Property, plant, and equipment, net	403,978	403,187	391,962	390,024	371,950
Total assets	1,081,759	1,049,183	909,835	850,117	827,088
Notes and bonds payable	$ 231,501	$ 223,349	$ 228,236	$ 185,403	$ 188,772
Total liabilities	327,851	320,236	308,484	261,674	266,148
Net assets without donor restrictions	$ 338,666	$ 325,460	$ 303,299	$ 303,791	$ 247,592
Net assets with donor restrictions for time or purpose	222,268	226,910	131,056	124,613	161,604
Net assets with donor restrictions in perpetuity	192,974	176,577	166,996	160,039	151,744
Total net assets	$ 753,908	$ 728,947	$ 601,351	$ 588,443	$ 560,940

For the year ended May 31	2022	2021	2020	2019	2018
Consolidated Statement of Activities and Other Data					
Student tuition and fees, net of institutional financial aid	$ 173,561	$ 159,401	$ 171,657	$ 168,749	$ 161,277
Total operating revenues [2]	274,803	228,588	242,040	244,441	231,953
Total operating expenses [2]	259,257	222,881	237,985	238,132	225,525
Increase in net assets from operations [2]	15,546	5,707	4,055	6,309	6,428
Increase in net assets from nonoperating activities [3]	9,415	121,889	8,853	21,194	23,873
Increase in total net assets	24,961	127,596	12,908	27,503	30,301
Pooled investment fund return	-0.1%	48.2%	3.4%	3.6%	11.5%

Measured in the fall of the applicable fiscal year	2022	2021	2020	2019	2018
Other Data					
Enrollment by headcount					
Undergraduate	4,994	4,870	5,238	5,317	5,209
Graduate	1,938	2,011	1,935	1,896	1,981
Law	448	414	375	350	316
Total enrollment	7,380	7,295	7,548	7,563	7,506
Employees [4]					
Faculty	459	455	467	465	448
Staff and administration	824	853	887	854	862
Total employees	1,283	1,308	1,354	1,319	1,310

(1) Includes beneficial interest in split-interest agreements held by others and long-term investments held in custody for others.

(2) Refer to Note 2 in the notes accompanying the consolidated financial statements for the definition of operating activities. Amounts reported are for all net asset classifications.

(3) Refer to Note 2 in the notes accompanying the consolidated financial statements for the definition of nonoperating activities. Amounts reported are for all net asset classifications.

(4) Employee figures include part-time faculty and staff and exclude student employees and adjunct faculty.

MOSSADAMS

Report of Independent Auditors

President and Board of Trustees
Gonzaga University

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gonzaga University (a Washington nonprofit corporation), which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gonzaga University as of May 31, 2022 and 2021, and the results of its consolidated operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gonzaga University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gonzaga University's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Letter from the Chief Financial Officer and the Selected Data are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Moss Adams LLP

Spokane, Washington
August 30, 2022

ASSETS

	(in thousands) May 31, 2022	(in thousands) May 31, 2021
ASSETS		
Cash and cash equivalents	$ 62,886	$ 64,547
Short-term investments	38,587	33,225
Accounts and interest receivable, net	12,410	12,481
Prepaid expenses	4,266	4,281
Contributions receivable, net	40,597	37,856
Student loans receivable, net	8,196	9,222
Deposits with bond trustees	10,087	13,612
Long-term investments	483,590	452,934
Beneficial interest in split-interest agreements held by others	13,632	14,125
Right of use assets, operating leases	1,542	1,642
Right of use assets, finance leases	1,988	2,071
Property, plant, and equipment, net	403,978	403,187
Total assets	$ 1,081,759	$ 1,049,183

LIABILITIES AND NET ASSETS

	2022	2021
LIABILITIES		
Accounts and other payables	$ 11,343	$ 13,746
Accrued salaries, taxes, and benefits	26,747	27,673
Interest payable	1,607	1,549
Deferred revenues and refundable advances	24,596	22,474
Split-interest agreement obligations	5,685	5,922
Federal student loan program	5,263	6,855
Long-term investments held in custody for others	14,402	14,784
Operating lease liabilities	1,533	1,632
Finance lease liabilities	5,174	2,252
Notes and bonds payable	231,501	223,349
Total liabilities	327,851	320,236
NET ASSETS		
Without donor restrictions	338,666	325,460
With donor restrictions		
Time or purpose	222,268	226,910
Perpetuity	192,974	176,577
Total with donor restrictions	415,242	403,487
Total net assets	753,908	728,947
Total liabilities and net assets	$ 1,081,759	$ 1,049,183

See accompanying notes.

Gonzaga University
Consolidated Statements of Activities

(in thousands)

	Year Ended May 31, 2022 Without Donor Restrictions	With Donor Restrictions	Total	Year Ended May 31, 2021 Total
Operating revenues				
Student tuition and fees, net	$ 303,126	$ -	$ 303,126	$ 277,719
Less institutional financial aid	(129,565)	-	(129,565)	(118,318)
	173,561	-	173,561	159,401
Contributions	6,558	22,151	28,709	17,571
Grants and contracts	225	10,076	10,301	5,482
Return on investments designated for operating activities	(574)	-	(574)	2,592
Endowment income distributed for operating activities	2,658	9,927	12,585	11,244
Auxiliary enterprises	31,218	-	31,218	21,300
Other sources	18,957	46	19,003	10,998
Net assets released from restrictions	32,825	(32,825)	-	-
Total operating revenues	265,428	9,375	274,803	228,588
Operating expenses				
Salaries, wages, and benefits	159,303	-	159,303	146,651
Professional fees and contracted services	24,954	-	24,954	16,971
Depreciation and amortization	18,685	-	18,685	18,150
Occupancy, utilities, and maintenance	16,743	-	16,743	14,229
Materials, supplies, printing, and postage	11,366	-	11,366	8,380
Meetings, travel, and memberships	10,746	-	10,746	5,165
Interest	8,843	-	8,843	8,834
Scholarships and student aid	4,420	-	4,420	1,410
Other expenses	4,197	-	4,197	3,091
Total operating expenses	259,257	-	259,257	222,881
Increase in net assets from operations	6,171	9,375	15,546	5,707
Nonoperating activities				
Contributions for acquisition of capital assets, net	-	4,453	4,453	5,229
Contributions to endowment funds, net	-	16,086	16,086	7,235
Gain on sale of property and equipment	58	-	58	308
Return on investments	2,136	243	2,379	117,573
Endowment income distributed for operating activities	(2,658)	(9,927)	(12,585)	(11,244)
Change in value of split-interest agreements	-	(976)	(976)	2,788
Net assets released from restrictions for acquisition of capital assets	8,079	(8,079)	-	-
Transfers	(580)	580	-	-
Total nonoperating activities	7,035	2,380	9,415	121,889
Increase in net assets	13,206	11,755	24,961	127,596
Net assets at beginning of year	325,460	403,487	728,947	601,351
Net assets at end of year	$ 338,666	$ 415,242	$ 753,908	$ 728,947

See accompanying notes.

	(in thousands) Year Ended May 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Student tuition and fees, net	$ 277,719	$ -	$ 277,719
Less institutional financial aid	(118,318)	-	(118,318)
	159,401	-	159,401
Contributions	2,625	14,946	17,571
Grants and contracts	3	5,479	5,482
Return on investments designated for operating activities	2,588	4	2,592
Endowment income distributed for operating activities	2,070	9,174	11,244
Auxiliary enterprises	21,300	-	21,300
Other sources	10,966	32	10,998
Net assets released from restrictions	27,408	(27,408)	-
Total operating revenues	226,361	2,227	228,588
Operating expenses			
Salaries, wages, and benefits	146,651	-	146,651
Depreciation and amortization	18,150	-	18,150
Professional fees and contracted services	16,971	-	16,971
Occupancy, utilities, and maintenance	14,229	-	14,229
Interest	8,834	-	8,834
Materials, supplies, printing, and postage	8,380	-	8,380
Meetings, travel, and memberships	5,165	-	5,165
Scholarships and student aid	1,410	-	1,410
Other expenses	3,091	-	3,091
Total operating expenses	222,881	-	222,881
Increase in net assets from operations	3,480	2,227	5,707
Nonoperating activities			
Contributions for acquisition of capital assets, net	-	5,229	5,229
Contributions to endowment funds, net	-	7,235	7,235
Gain on sale of property and equipment	308	-	308
Return on investments	19,819	97,754	117,573
Endowment income distributed for operating activities	(2,070)	(9,174)	(11,244)
Change in value of split-interest agreements	-	2,788	2,788
Net assets released from restrictions for acquisition of capital assets	1,020	(1,020)	-
Transfers	(396)	396	-
Total nonoperating activities	18,681	103,208	121,889
Increase in net assets	22,161	105,435	127,596
Net assets at beginning of year	303,299	298,052	601,351
Net assets at end of year	$ 325,460	$ 403,487	$ 728,947

See accompanying notes.

Gonzaga University
Consolidated Statements of Cash Flows

	(in thousands) Years Ended May 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 24,961	$ 127,596
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation and amortization	18,685	18,150
Bond discount and debt issuance cost amortization	160	164
Provision for uncollectible receivables	699	3,232
Gain on sale of property and equipment	(58)	(308)
Contributions restricted for long-term purposes	(20,539)	(12,464)
Interest and dividends restricted for long-term investment	(3,372)	(7,317)
Net realized and unrealized loss (gain) on investments	2,710	(112,042)
Change in value of split-interest agreements	976	(2,788)
Other change in assets and liabilities, net	(6,134)	1,010
Net cash from operating activities	18,088	15,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, equipment, and finance right of use assets	(16,640)	(24,172)
Proceeds from sale of property and equipment	58	312
Proceeds from sale of investments	55,805	54,113
Purchase of investments	(98,375)	(48,214)
Issuance of student loans receivable	(783)	(645)
Repayment of student loans receivable	1,789	2,160
Net cash from investing activities	(58,146)	(16,446)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	18,870	8,003
Proceeds from contributions for split-interest agreements	643	221
Proceeds from issuance of bonds and finance leases	13,611	-
Payments for bond issuance costs	(119)	-
Principal payments on bonds and finance leases	(2,578)	(14,818)
Payments on split-interest agreements	(320)	(283)
Interest and dividends restricted for long-term investment	3,372	7,317
Net change in student loan liability	(1,592)	(1,867)
Net cash from financing activities	31,887	(1,427)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	(8,171)	(2,640)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, beginning of year	78,159	80,799
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, end of year	$ 69,988	$ 78,159
SUPPLEMENTAL DISCLOSURES		
Interest paid (includes capitalized interest of $765 and $786 for 2022 and 2021, respectively)	$ 9,390	$ 9,482
NON-CASH ACTIVITIES		
Right of use assets acquired under finance leases	-	2,033
Acquisition of investments and property, plant, and equipment in accounts payable	2,309	5,127
Gifts of investments and property, plant, and equipment	753	109
Cash and cash equivalents	$ 62,886	$ 64,547
Deposits with bond trustees	7,102	13,612
Total cash, cash equivalents, and restricted cash equivalents	$ 69,988	$ 78,159

See accompanying notes.

(In Thousands)

Note 1 – Organization

Gonzaga University is an independent, accredited coeducational higher education institution founded in 1887 by the Society of Jesus. The Corporation of Gonzaga University (Corporation) was incorporated in the state of Washington in 1894 as a tax-exempt charitable organization located in Spokane, Washington. The consolidated financial statements include the accounts of the Corporation, the Gonzaga Law School Foundation (Foundation), Immobiliare Gonzaga Srl., Gonzaga University Telecommunications Association (GUTA), Woldson Western 00 LLC, Woldson Alaskan Way 01 LLC, Woldson Western 01 LLC, and Woldson Western 25 LLC (LLCs) (collectively, University). The purpose of the Foundation is to provide financial support to the University's Law School. Immobiliare Gonzaga Srl. is an Italian corporation that owns land and a classroom/administration building used in the University's Florence, Italy program. GUTA broadcasts educational television and FM radio. The Corporation is the single member in the LLCs, which are organized for the exclusive purpose of holding title to property as part of the University's endowment, collecting income therefrom, and turning over the entire amount thereof less expenses to the Corporation.

All significant inter-entity transactions and balances have been eliminated. The summarized consolidating statement of financial position for the University is as follows:

	For the Year Ended May 31, 2022			
	Corporation	All Other Entities	Inter-Entity Elimination	Consolidated Total
Assets	$ 1,080,246	$ 108,935	$ (107,422)	$ 1,081,759
Liabilities	$ 360,858	$ 5,415	$ (38,422)	$ 327,851
NET ASSETS				
Without donor restrictions	337,663	72,499	(71,496)	338,666
With donor restrictions				
Time or purpose	200,267	19,505	2,496	222,268
Perpetuity	181,458	11,516	-	192,974
Total net assets	719,388	103,520	(69,000)	753,908
Total liabilities and net assets	$ 1,080,246	$ 108,935	$ (107,422)	$ 1,081,759

The primary source of revenue is tuition and fees from undergraduate, graduate, and law programs through the College of Arts & Sciences, and Schools of Business, Engineering & Applied Science, Education, Nursing & Human Physiology, Leadership Studies, and Law. Other sources of revenue include room and board, contributions, grants and contracts, return on investments, athletic ticket sales and sponsorships, and other sales and services.

Note 2 – Summary of Significant Accounting Policies

The accounting policies of the University reflect practices common to universities and colleges and are in accordance with accounting principles generally accepted in the United States of America (GAAP). Significant policies are summarized below.

Basis of presentation – The accompanying consolidated financial statements have been prepared with net assets, revenues, expenses, gains, and losses classified into two categories based on the existence or absence of donor-imposed restrictions. The net assets of the University are classified and defined as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board.

Net assets with donor restrictions for time or purpose – Net assets that are subject to donor-imposed restrictions that will be met by actions of the University or the passage of time. This includes gifts as well as income and net gains and losses accruing on those gifts, whose use by the University is subject to donor-imposed stipulations.

Net assets with donor restrictions in perpetuity – Net assets that are subject to donor-imposed restrictions that are permanently maintained by the University. Generally, the donors of these assets permit the University to use all or part of the return on related investments for general or specific purposes. This includes gifts, trusts, and contributions that, by donor restriction, require the corpus be invested in perpetuity.

Cash and cash equivalents – Cash and cash equivalents consist of cash balances and short-term, highly liquid investments with remaining maturities at the date of purchase of 90 days or less. Amounts also include money market mutual funds, all of which comply with Rule 2a-7 of the Investment Company Act of 1940 that seeks to limit the risk of money market funds. The University holds cash and cash equivalents at several major financial institutions, which, during the course of the year, exceeded the amounts insured by the Federal Depository Insurance Corporation (FDIC). Assets with the characteristics of cash and cash equivalents that are held in donor-restricted endowment funds are reported as long-term investments.

Included in cash and cash equivalents and short-term investments are assets that are donor or contractually restricted for investment in property, plant, and equipment of $4,807 and $3,761 as of May 31, 2022 and 2021, respectively.

Investments – Except for direct investments in real property, the University manages its investments by using external investment managers. These investment managers invest the University's funds in various financial instruments in accordance with Board-approved investment policies. The University classifies investments as short-term investments or long-term investments depending upon the investment time horizon, liquidity considerations, and intended purpose and use of the assets.

Note 2 – Summary of Significant Accounting Policies (continued)

To enable broad diversification and economies of scale, the University's policy is to pool endowment and other long-term assets for investment purposes to the fullest extent possible as permitted by gift agreements and any applicable government regulations. In the limited cases when a donor has prohibited a gift from being pooled for investment purposes, or where the nature of the gift calls for it to be separately invested, those assets are separately invested and managed.

The University's investments are recorded in the consolidated financial statements at fair value. Investments contributed to the University are recorded at the fair value at the date of contribution. Return on investments is shown net of external and direct internal expenses. Return on investments is reported in the consolidated statements of activities as increases or decreases in net assets without donor restrictions or net assets with donor restrictions.

Investments are exposed to various risks, such as interest rate, market, foreign currency, credit, and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the consolidated statements of financial position. The University is a limited partner in a managed diversified global multi-asset fund that represents a significant concentration of investment risk, such amounts comprising 29.3% of long-term investments as of May 31, 2022.

Beneficial interest in split-interest agreements held by others – The University is the irrevocable beneficiary of the income or the residual interest of assets in charitable split-interest agreements held by outside entities. At the date of donation, the University recognizes its beneficial interest in the outside split-interest agreement as a contribution at fair value that is measured as the present value of the estimated expected future benefits to be received. The contribution revenue recognized is classified as an increase in net assets with donor restrictions based on the time or use restrictions placed by the donor upon the University's beneficial interest in the split-interest agreement. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as changes in value of split-interest agreements.

Split-interest agreements – The University has legal title, as trustee, to irrevocable charitable remainder trusts and also receives contributions in connection with charitable gift annuity contracts. Actuarial methods are used to record these annuities and trusts using discount rates ranging from 4% to 6%. When a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability based upon life expectancy tables and discount rate assumptions and the remainder is recorded as a contribution. Annuity and trust assets are reported at fair value and included within long-term investments on the consolidated statements of financial position. Investment returns, beneficiary payments, and direct costs of funds management are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses resulting from changes in fair value and life expectancy.

(In Thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

The University maintains separate funds adequate to meet future payments under its charitable gift annuity contracts as required by state laws. The total investments held in separate funds were $3,933 and $4,030 as of May 31, 2022 and 2021, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,700 and $1,601 as of May 31, 2022 and 2021, respectively.

Accounts and contributions receivable, net – Accounts receivable from students included in accounts and interest receivable, net, in the consolidated statements of financial position are reported net of an allowance for doubtful accounts. Accounts receivable are written off only when they are deemed to be permanently uncollectible.

Contributions, including unconditional promises to give, are recognized as revenue when the donor's commitment is made. Unconditional promises are recognized at the estimated present value of the future cash flows using discount rates, net of allowances for doubtful accounts. The discounts are determined using a rate that is commensurate with the risks involved and applicable to the years in which the promises are received. Based upon historical pledge payments and current information, an allowance for doubtful accounts is determined. Account balances are charged off against the allowance when collection is considered remote. Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as revenue with donor restrictions.

Student loans receivable, net – Student loans receivable primarily consist of amounts due from students under the University's repayable financial aid programs and are stated net of allowance for doubtful accounts. The notes receivable bear interest ranging from 3% to 7% and are generally repayable to the University over a period not to exceed 10 years.

Property, plant, and equipment, net – Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation. The cost of improvements in excess of $100 and all other property, plant, and equipment in excess of $5 are capitalized. Property, plant, and equipment purchased in connection with a building acquisition or construction project but less than $5 is also capitalized. Normal repair and maintenance expenses and minor equipment costs are expensed as incurred. Depreciation, except for land and collection of artwork, is provided for on a straight-line basis over the estimated useful lives of the respective assets as follows:

Land improvements	20–40 years
Buildings	20–50 years
Equipment and furniture	3–10 years
Library books	10 years

The University owns a collection of artwork that is held for public exhibition, education, and research rather than for financial gain. The collection of artwork is recorded at cost if purchased and at fair value if donated. Gains and losses from sales or insurance recoveries are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. The collection of artwork is protected, kept unencumbered, cared for, and preserved.

Note 2 – Summary of Significant Accounting Policies (continued)

Asset retirement obligations include legal environmental obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value when incurred and are capitalized by increasing the carrying amount of the associated long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated on a straight-line basis through the estimated date of retirement. The liability is removed when the obligation is settled.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as revenues with donor restrictions. The restrictions are released when the long-lived assets are placed in service.

Deferred revenue and refundable advances – Deferred revenue includes tuition and other student deposits related to programs applicable to the next fiscal year, as well as grants and other payments received in advance of incurring related expenses. Deferred revenue is recognized ratably as revenue in the fiscal year that it is earned. Refundable advances consist of vendor incentive payments and are recognized as a reduction of operating expenses or recognized as revenue from other sources over the term of the agreements.

Long-term investments held in custody for others – The University manages certain investments on behalf of the Gonzaga Preparatory School Foundation, an unrelated charitable organization. The management of these investments is subject to an agreement that governs the arrangement, including additions and redemptions. Additions buy an undivided beneficial ownership interest in the University's pooled endowment. Redemptions can be requested, in addition to the annual spending distribution, subject to the underlying liquidity of the endowment pool. A redemption request not to exceed 50% of the fair value of the beneficial interest in the endowment pool will be distributed within 30 calendar days. A redemption request in excess of 50% and up to 80% of the fair value of the benefit interest in the endowment pool may be subject to a longer redemption period informed by the liquidity of the underlying investments in the endowment pool and will be paid within 180 calendar days. A redemption request in excess of 80% of the fair value of the beneficial interest in the endowment pool shall be considered a full redemption and will lead to the complete redemption of all remaining units, paid within 180 calendar days. Long-term investments held in custody for others were $14,402 and $14,784 as of May 31, 2022 and 2021, respectively.

Leases – The University determines if an arrangement is or contains a lease at inception of the contract and classifies leases as either operating or finance depending upon the terms and conditions set forth in the contract. The University uses an incremental borrowing rate to determine the present value of lease payments when the implicit rate in the lease is not readily available. The current treasury rate and the University's current borrowing rate are factored into the incremental borrowing rate calculation.

Note 2 – Summary of Significant Accounting Policies (continued)

The University recognizes operating lease expense within occupancy, utilities, and maintenance expense in the consolidated statements of activities on a straight-line basis over the lease term. On the consolidated statements of financial position, right of use assets represent the University's right to use the underlying assets for the lease term and lease liabilities represent the University's obligation to make lease payments arising from the leases. Right of use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Right of use assets are reduced each period by an amount equal to the difference between the operating lease expense and the amount of interest expense on the lease liability utilizing the effective interest method. The University's policy is not to record a right of use asset and lease liability for leases with terms less than one year.

Finance lease assets are amortized on a straight-line basis within depreciation and amortization on the consolidated statements of activities over the lease term. Interest expense associated with finance leases is recorded using the effective interest method and is included in interest expense on the consolidated statements of activities. The University recognizes variable expenses, other than those related to rates or indices, in operating expenses in the period in which the obligation is incurred.

Revenue recognition – Student tuition, fees, and room and board are recognized in the period the services are provided. Institutional scholarships awarded to students reduce the amount of revenue recognized. Students who adjust their course load or withdraw completely within the first four weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. For the years ended May 31, 2022 and 2021, the University issued refunds to students for housing and dining of $0 and $1,396, respectively, as a result of allowing students the option to not return to campus for a three-week period between Thanksgiving and Christmas holiday breaks during Fall 2020 semester. Refunds issued reduce the amount of revenue recognized. Payments for tuition are due approximately three weeks prior to the start of the academic term. Grants, contracts, and contributions, including unconditional promises to give, are recognized in the period earned and are reported as increases in the appropriate category of net assets. Conditional or contingent grants and contributions are not recorded as revenue until the conditions on which they depend have been substantially met. Return on investments are recorded on the accrual basis of accounting. Other sources of revenue not otherwise categorized are recognized in the fiscal year in which they are earned.

In response to the COVID-19 pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and the American Rescue Plan Act (ARPA).The University recognized $8,840 and $4,138 as of May 31, 2022 and 2021, respectively, in grant revenue as a result of the CARES, CRRSA, and ARPA Acts. The portion used to award COVID-19 relief to students is included in scholarships and student aid and the remaining amount was used to offset lost revenues and refunds of housing and dining charges.

Advertising – Costs expensed for the years ended May 31, 2022 and 2021, were $2,643 and $2,627, respectively.

(In Thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – The Internal Revenue Service (IRS) has recognized the Corporation and Foundation as exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income under Sections 511 through 515. Unrelated business income tax, if any, is immaterial. As of May 31, 2022 and 2021, the University had no uncertain tax positions requiring accrual. The University may be subject to routine audit by the IRS; however, there are currently no audits for any tax periods in progress.

Operating and nonoperating activities – The University's measure of operating activities, presented in the consolidated statements of activities, includes all transactions that are incurred in the course of the normal business operations of the University. Nonoperating activities presented in the consolidated statements of activities include transactions that result from something other than the ongoing day-to-day activity of the University.

Concentrations of financial aid – A significant number of students attending the University receive financial assistance from the U.S. government student financial aid programs. These programs require the University to comply with recordkeeping, eligibility, and other requirements. Failure to comply with such U.S. government requirements could result in the loss of U.S. government financial assistance to the University's students and adversely impact the operations of the University.

Use of estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Subsequent events – The University has evaluated subsequent events through August 30, 2022, which is the date the consolidated financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 3 – Accounts and Interest Receivable, Net

Accounts and interest receivable, net, consisted of the following as of May 31:

	2022	2021
Government grants and loan funds	$ 6,613	$ 6,877
Student receivables	745	646
Miscellaneous receivables	4,948	4,867
Accrued interest receivable	204	191
	12,510	12,581
Less allowance for doubtful accounts	(100)	(100)
	$ 12,410	$ 12,481

(In Thousands)

Note 4 – Contributions Receivable, Net

Contributions receivable, net, at May 31 are expected to be realized in the following periods:

	2022	2021
In one year or less	$ 14,915	$ 12,697
Between one year and five years	22,304	21,656
More than five years	14,993	15,633
Less present value discounts	(10,806)	(10,970)
	41,406	39,016
Less allowance for doubtful accounts	(809)	(1,160)
	$ 40,597	$ 37,856

Contributions receivable, net, at May 31 are designated as follows:

	2022	2021
With donor restrictions for financial aid and program support	$ 12,712	$ 10,552
With donor restrictions for property, plant, and equipment	19,714	22,822
With donor restrictions for endowment financial aid and chairs	8,171	4,482
	$ 40,597	$ 37,856

Note 5 – Student Loans Receivable, Net

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs and institutional resources.

Student loans receivable, net, consisted of the following as of May 31:

	2022	2021
Federal government programs	$ 6,199	$ 7,811
Institutional programs	2,132	1,613
	8,331	9,424
Less allowance for doubtful accounts	(135)	(202)
Student loans receivable, net	$ 8,196	$ 9,222

(In Thousands)

Note 5 – Student Loans Receivable, Net (continued)

The University participates in the Perkins and Nursing federal revolving loan programs. The availability of funds for new loans under the programs is dependent on reimbursements to the programs from repayments on outstanding loans and the continuation of the program by the federal government. Outstanding loans cancelled under the programs result in a reduction of the funds available for new loans and a decrease in the liability to the government. Funds advanced by the federal government are ultimately refundable to the government. The liability due to the government was $5,263 and $6,855 at May 31, 2022 and 2021, respectively.

On October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permits disbursements to students of any kind after June 30, 2018. The University has been notified that the federal government will begin collecting the federal share of the University's Perkins Loan Revolving Funds annually from the University as loans are paid back to the University by students. The University estimates the federal share will be returned to the government over the next eight years.

At May 31, 2022 and 2021, the following amounts were past due under all student loan programs:

May 31,	1–59 Days Past Due	60–89 Days Past Due	90–119 Days Past Due	120–179 Days Past Due	180–729 Days Past Due	730+ Days Past Due	Total Past Due
2022	$ 6	$ 3	$ 2	$ 3	$ 108	$ 711	$ 833
2021	$ 4	$ 2	$ 1	$ 2	$ 101	$ 590	$ 700

Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

Note 6 – Deposits with Bond Trustees

Deposits with bond trustees, at market, at May 31 are as follows:

	2022	2021
Restricted cash and cash equivalents	$ 7,102	$ 13,612
U.S. government and agency obligations	2,985	-
Total deposits with bond trustees	$ 10,087	$ 13,612

Deposits with bond trustees consist of bond funds held in restricted cash and cash equivalents and investments permitted under the Washington Higher Education Facilities Authority documents and are restricted for the purpose designated in the bond documents.

(In Thousands)

Note 7 – Investments

Short-term investments, at market, at May 31 are as follows:

	2022	2021
Fixed income securities	$ 38,587	$ 33,225

Short-term investments consist of operating funds and funds held for fixed asset acquisition, managed as a laddered portfolio and mutual fund investments, with the objectives of preserving principal, maintaining an appropriate degree of liquidity, and generating an appropriate risk-adjusted return. The remaining weighted-average maturity of the laddered investment portfolio was 1.67 years as of May 31, 2022.

Long-term investments, at market, at May 31 are as follows:

	2022	2021
Cash and cash equivalents	$ 839	$ 2,930
Equity securities	160,092	167,439
Fixed income securities	55,817	55,825
Alternative investments	181,278	145,054
Direct real property investments	71,136	66,375
Split-interest agreements	14,091	14,758
Other	337	553
	$ 483,590	$ 452,934

Direct real property investments include gifted properties held for resale, three real property assets in downtown Seattle, Washington received through an estate gift, and an investment in a real estate joint venture which supports regional health science programs, including that of the University. As described in Note 1, the Seattle properties are held in separate single member LLCs, consisting of two parking garages and one surface parking lot, a portion of which is subject to a ground lease.

Note 7 – Investments (continued)

The University entered into a ground lease agreement in 2019 with an unrelated third-party entity to develop a portion of the surface parking lot into a proposed 340,000 square-foot multi-family residential housing facility. The lessee is currently in the design and regulatory approvals period. The City of Seattle issued a Master Use Permit for the project in September 2021, with the issuance of the permit being challenged unsuccessfully to the City Hearing Examiner and to the Superior Court. On July 1, 2022, the Superior Court Decision was appealed to the Washington Court of Appeals. The University and the lessee are currently evaluating possible changes to lease terms as a result of the delay caused by this latest appeal, with the lessee having the ability to terminate the lease on or prior to September 1, 2022. Under the terms of the current Lease Agreement and Amendments, if the lessee is unable to obtain all regulatory approvals within 54 months from the commencement date, the lessee may terminate the ground lease or deposit an additional $500 until the regulatory approvals are obtained. The University may elect to terminate the ground lease if substantial completion has not been achieved within seven years and seven months from the commencement of the ground lease, this date being extended on a day-by-day basis for the delay caused by the above appeals.

The annual ground lease payments are on a triple-net basis, subject to annual adjustment beginning in 2026, and reset every 20 years beginning with the initial reset of March 15, 2032. The ground lease will expire 80 years after the commencement date. Upon the termination of the lease, all improvements will become the property of the University. The University has an end of term call right in the 70th and 75th year to buyout the ground lessee's interest in the improvements at the net present value of the anticipated remaining payments.

An initial deposit credit of $600 is recorded in deferred revenues in the consolidated statements of financial position. If the lessee elects to terminate the lease prior to the completion of the improvements, the deposit will be retained by the University.

The total lease income recognized on the development ground lease for the years ended May 31, 2022 and 2021, was $1,102 and $935, respectively, and is recorded as return on investments in the consolidated statements of activities. Fixed and probable lease payments for the development ground lease expected to be received on an annual basis in each of the next five years range from $1,312 to $1,375 plus annual adjustments beginning in 2026, subject to the conditions noted above.

The University also has lease agreements with an unrelated third-party parking company to operate two parking garages, and the portion of the surface parking lot that is not part of the development ground lease. The surface parking lot lease currently expires in December 2022 and the two garage leases expire in January 2026, all of which can be terminated at any time with notice. The total lease income recognized by the University on these agreements for the years ended May 31, 2022 and 2021, was $1,211 and $595, respectively, and is recorded as return on investments in the consolidated statements of activities.

Lease income is recognized on a straight-line basis over the fixed noncancelable term of the agreement. Variable lease income is recognized in the period in which changes in facts and circumstances occur.

(In Thousands)

Note 7 – Investments (continued)

Expenses incurred for the management and operation of the Seattle properties are recognized on an accrual basis and are recorded as a reduction in the return on investments in the consolidated statement of activities.

Included in long-term investments, measured at net asset value practical expedient, are alternative investments as follows:

	2022	2021
Managed diversified global multi-asset fund	$ 141,871	$ 104,487
Private equity funds	18,385	21,815
Private credit funds	12,809	11,437
Real estate funds	6,450	5,039
Diversified fund of funds	1,763	2,276
	$ 181,278	$ 145,054

Long-term investments are largely composed of donor-restricted, Board-designated funds, and co-investments directed by management. Long-term investments are managed within various investment portfolios. See Note 8 for return objectives and risk parameters for such funds.

Note 8 – Endowment

The University's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund at May 31 is summarized as follows:

	2022				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Return on Investments, Net of Distributions	Foundation Board-Designated (1)	Total
Board-designated funds	$ 82,915	$ -	$ -	$ 1,805	$ 84,720
Donor-restricted funds	-	187,554	161,978	-	349,532
Underwater funds	-	5,420	(192)	-	5,228
	$ 82,915	$ 192,974	$ 161,786	$ 1,805	$ 439,480

(In Thousands)

Note 8 – Endowment (continued)

	2021				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Return on Investments, Net of Distributions	Foundation Board-Designated (1)	Total
Board-designated funds	$ 79,317	$ -	$ -	$ 1,851	$ 81,168
Donor-restricted funds	-	176,577	171,429	-	348,006
	$ 79,317	$ 176,577	$ 171,429	$ 1,851	$ 429,174

(1) Amounts shown as Board-designated funds with donor restrictions are Foundation assets restricted for use by the Gonzaga Law School Foundation.

Interpretation of relevant law – Under the Washington Uniform Prudent Management of Institutional Funds Act (WUPMIFA), the Board has adopted as policy for donor-restricted endowment funds the requirement to preserve the original fair value of the initial gift and any subsequent gifts (as of the respective gift date), along with any accumulations to the permanent endowment made at the direction of the donor, absent explicit donor stipulations to the contrary. Together, these amounts become the perpetual value of the funds. Net endowment return on investments that have not been appropriated for expenditure are classified as net assets with donor restrictions for time and purpose.

In accordance with WUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate income from donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Return objectives and risk parameters – The University has adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The University's goal for its endowment funds, over time, is to provide an average annualized return of approximately 5% in excess of the Higher Education Price Index (HEPI) over a market cycle of three to five years. To satisfy this goal, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University maintains a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term return objectives within prudent risk constraints.

(In Thousands)

Note 8 – Endowment (continued)

Spending policy – The University has a policy of appropriating for expenditure amounts from its pooled endowment fund each year based upon a hybrid rate that is the sum of two components:

- 70% based upon the HEPI applied to the prior year endowment spending amount.

- 30% based upon a rate of 4% to 5% of a three-year rolling average of the fund's total market value, measured quarterly.

Absent donor stipulations to the contrary, the University will not appropriate for expenditure from a permanent pooled endowment fund if such expenditure will result in the fair value of the fund falling below the perpetual value of the fund, measured as of May 31 of the fiscal year of appropriation.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration. Deficiencies of this nature reported in net assets with donor restrictions were $192 and $0 as of May 31, 2022 and 2021, respectively.

Changes in endowment net assets are summarized as follows for the years ended May 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 79,317	$ 349,857	$ 429,174
Return on investments, net	2,136	334	2,470
Contributions	-	16,086	16,086
Amount distributed for operating activities	(2,658)	(9,927)	(12,585)
Transfers	4,120	215	4,335
Net assets, end of year	$ 82,915	$ 356,565	$ 439,480

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 61,372	$ 252,361	$ 313,733
Return on investments, net	19,819	99,778	119,597
Contributions	-	7,235	7,235
Amount distributed for operating activities	(2,070)	(9,174)	(11,244)
Transfers	196	(343)	(147)
Net assets, end of year	$ 79,317	$ 349,857	$ 429,174

Note 9 – Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques utilized maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs are developed based on market data obtained from sources independent of the University. Unobservable inputs reflect the University's own assumptions about market inputs based on its own data.

Assets and liabilities are classified in one of three categories as follows:

Level 1 – Inputs consist of quoted market prices in active markets for identical assets or liabilities the University has the ability to access at the measurement date.

Level 2 – Inputs consist of valuations other than quoted prices included in Level 1 that are observable by the University for the related asset or liability.

Level 3 – Inputs consist of unobservable valuations related to the asset or liability.

The University uses the following methods and significant assumptions to estimate fair value, by level:

Level 1 assets include:

Mutual funds, index funds, and publicly traded stocks valued using active market exchange values at the last reported sales price. These investments can be traded daily with trades settling between one and three days.

Level 2 assets and liabilities include:

- Investments in U.S. government and agency obligations, certificates of deposit, corporate bonds, municipal bonds, and asset-backed obligations. These investments use other observable inputs to measure fair value such as dealer market prices for comparable investments based on interest rates, spreads, and trade activity in the market.

- Investments in international commingled equity funds valued using the fund managers' net asset value, derived from active market exchange values of the underlying fund investments at the last reported sales price.

- Investments in privately held stock valued using the market approach using recent sales.

- Certain investment in real property assets valued using appraised or tax assessed values that approximate market values.

Note 9 – Fair Value of Financial Instruments (continued)

Level 3 assets include:

- Privately held stock valued based on the net asset value of the investment that approximates market value.

- Direct real property investments are valued based on independent appraisals of two parking garages and one surface lot. The primary unobservable input for each of the parking garages, valued using an income approach, is the income capitalization rate, which was 5.36% for one garage and 4.29% for the other garage. A 0.25% decrease in the underlying income capitalization rates would increase the fair value of the two parking garages by approximately $1,148. A 0.25% increase in the underlying income capitalization rates would decrease the fair value of the two parking garages by approximately $1,035. The primary unobservable inputs for the surface parking lot, using a market approach, are the parameters associated with its future development, including the number of apartment units to be constructed, total developed square footage, and estimations of the revenue per square foot derived from market comparisons. The sensitivity associated with changes in these inputs is not quantified.

- Beneficial interests in the future cash flows of 12 different split-interest agreements are valued under the income approach, calculated using a discounted cash flow analysis based on the expected annuity payments to be made over the remaining life of each respective beneficial interest, utilizing a risk-free rate adjusted for the inherent risk of the assets held and the risk of nonperformance. The primary unobservable inputs for beneficial interests in split-interest agreements are the applicable discount rates that range from 2.95% to 8.04%, and applicable life expectancies that range from 3 to 47 years. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately $1,609. A 1.0% increase in each of the underlying discount rates would decrease the fair value by approximately $1,211. The sensitivity associated with changes in life expectancies is not quantified.

(In Thousands)

Note 9 – Fair Value of Financial Instruments (continued)

The following tables present assets and liabilities that are measured and carried at fair value on a recurring basis:

	May 31, 2022			
	Level 1	Level 2	Level 3	Total
Short-term investments				
U.S. government and agency obligations	$ -	$ 7,335	$ -	$ 7,335
Corporate bonds	-	29,945	-	29,945
Municipal bonds	-	1,307	-	1,307
Total short-term investments	-	38,587	-	38,587
Deposits with bond trustees				
U.S. government and agency obligations	-	2,985	-	2,985
	-	2,985	-	2,985
Long-term investments				
Cash and cash equivalents	839	-	-	839
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	42,888	-	-	42,888
International	34,467	30,278	-	64,745
Global	5,262	21,245	-	26,507
Direct ownership - public and privately held stock	25,296	14	642	25,952
Fixed income securities				
Mutual funds and index funds				
Domestic	55,817	-	-	55,817
Direct real property investments	-	395	70,741	71,136
Assets held under split-interest agreements				
Cash and cash equivalents	825	-	-	825
Equity mutual funds	7,715	-	-	7,715
Equity-direct ownership	2,046	-	-	2,046
Fixed income mutual funds	3,010	-	-	3,010
Fixed income-direct ownership	-	495	-	495
Other	331	6	-	337
Total long-term investments in fair value hierarchy	178,496	52,433	71,383	302,312
Beneficial interest in split-interest agreements held by others	-	-	13,632	13,632
Total assets in fair value hierarchy	$ 178,496	$ 94,005	$ 85,015	$ 357,516
Long-term investments measured at NAV practical expedient(1)				$ 181,278

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value (NAV) per share, using the practical expedient to estimate fair value, have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position and related notes.

(In Thousands)

Note 9 – Fair Value of Financial Instruments (continued)

	May 31, 2021			
	Level 1	Level 2	Level 3	Total
Short-term investments				
U.S. government and agency obligations	$ -	$ 2,065	$ -	$ 2,065
Corporate bonds	-	30,356	-	30,356
Municipal bonds	-	804	-	804
Total short-term investments	-	33,225	-	33,225
Long-term investments				
Cash and cash equivalents	2,930	-	-	2,930
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	56,336	-	-	56,336
International	34,655	33,529	-	68,184
Global	6,028	7,859	-	13,887
Direct ownership - public and privately held stock	28,614	17	401	29,032
Fixed income securities				
Mutual funds and index funds				
Domestic	47,148	-	-	47,148
International	8,677	-	-	8,677
Direct real property investments	-	395	65,980	66,375
Assets held under split-interest agreements				
Cash and cash equivalents	601	-	-	601
Equity mutual funds	8,518	-	-	8,518
Equity-direct ownership	2,021	-	-	2,021
Fixed income mutual funds	3,102	-	-	3,102
Fixed income-direct ownership	-	516	-	516
Other	324	229	-	553
Total long-term investments in fair value hierarchy	198,954	42,545	66,381	307,880
Beneficial interest in split-interest agreements held by others	-	-	14,125	14,125
Total assets in fair value hierarchy	$ 198,954	$ 75,770	$ 80,506	$ 355,230
Long-term investments measured at NAV practical expedient(1)				$ 145,054

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value (NAV) per share, using the practical expedient to estimate fair value, have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position and related notes.

(In Thousands)

Note 9 – Fair Value of Financial Instruments (continued)

Following is a reconciliation of activity for the years ended May 31, 2022 and 2021, of assets classified as Level 3:

	Privately Held Stock	Direct Real Property Investments	Beneficial Interest in Split-Interest Agreements Held by Others	Total
Balance, May 31, 2020	$ 309	$ 63,300	$ 13,171	$ 76,780
Contributions	-	-	439	439
Purchase of investments	-	1,000	-	1,000
Return on investments	92	2,558	730	3,380
Return of capital	-	(878)	(215)	(1,093)
Balance, May 31, 2021	401	65,980	14,125	80,506
Purchase of investments	-	539	-	539
Return on investments	241	5,870	(260)	5,851
Return of capital	-	(1,648)	(233)	(1,881)
Balance, May 31, 2022	$ 642	$ 70,741	$ 13,632	$ 85,015

Unrealized gains and losses for investment classified as Level 3 were $4,520 and $1,886 for the years ended May 31, 2022 and 2021, respectively.

Redemption, funding commitments, restrictions, and other information associated with the nature and valuation of applicable investments are as follows:

	Fair Value at May 31, 2022	Unfunded Cash Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	Investment Strategies and Other Restrictions
Commingled funds (Level 2)	$ 51,523	$ -	(a)	(a)	(a)
Limited partnership investments					
Managed diversified global multi-asset fund	$ 141,871	$ -	(b)	(b)	(b)
Private equity funds	18,385	7,256	(c)	n/a	(c)
Private credit funds	12,809	13,210	(d)	n/a	(d)
Real estate fund	6,450	-	(e)	(e)	(e)
Diversified fund of funds	1,763	39	(f)	(f)	(f)
Total long-term investments measured at NAV practical expedient	$ 181,278	$ 20,505			

Note 9 – Fair Value of Financial Instruments (continued)

(a) Four of the five commingled equity funds in this category can be redeemed monthly with notice (ranging from 15 days to 31 days), a fifth fund can be redeemed on a quarterly basis, unless any withdrawal from the funds would have a materially adverse effect on the fund. The funds' investment objective is to achieve long-term capital appreciation by investing in a portfolio of primarily international market companies, global companies, and global credit opportunities.

(b) The University may receive up to 5% of this capital account balance in the fund as an automatic annual distribution. Currently, the University has elected to retain this 5% of its capital balance in the fund. The University may change this election annually, and the election must be made in the first quarter of the calendar year preceding the first calendar year to which the distribution applies, and amounts will be distributed within 90 days of the end of the calendar year, or within 10 business days after the fund's audited financial statements for the year are completed.

For distributions in excess of the automatic annual distribution, the University may request the withdrawal of all or a portion of its capital account, with a minimum withdrawal of at least $1,000, on the last day of any calendar year by providing a withdrawal request at any time during the fourth quarter of the preceding calendar year. The amount requested to be withdrawn will be apportioned between the liquid portion and limited liquidity portion of the University's capital account, as determined based on the liquidity attributes of the underlying fund investments. As of May 31, 2022, the value of the liquid portion is $8,391. The fund will make a distribution within 30 days after the effective withdrawal date in an amount not less than 90% of the liquid portion, with the remaining liquid portion amount paid subsequent to the fund's financial statement audit. For withdrawal amounts attributable to the limited liquidity portion, distributions will be made within 45 days after the realization or deemed realization of assets held in that account. Distributions may be made in cash, fund assets, or both. The fund general partner can also suspend the rights of the University and other limited partners to make withdrawals or receive distributions for all or part of any period of market disruption. The fund general partner may also limit withdrawals such that they do not exceed 15% of the liquid subaccount balance.

The fund's objective is to manage and grow long-term capital with equity-like annual returns of 10%–12% over time, with lower-than-average risk, with investments in fixed income, public equities, absolute return strategies, real assets, and private equity.

(c) This category includes eight private equity funds that invest in privately held entities with potential for significant growth in revenue and earnings, including one impact fund focused on investments that have a positive societal (i.e., social and/or environmental) impact, and one sustainable real assets fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. It is estimated that the underlying assets of the funds will be liquidated between 2022 and 2030.

Note 9 – Fair Value of Financial Instruments (continued)

(d) This category includes five private credit funds, including a mezzanine debt fund, two special opportunities funds, an upper-middle market direct lending fund, and a European direct fund. Each fund has the objective to invest in debt and debt-like preferred securities of companies, primarily to generate interest income, within the mandate of the respective fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. Distributions are received through the liquidation of the underlying assets of the funds. It is estimated the underlying assets of these funds will be liquidated between 2022 and 2029.

(e) This category includes a real estate fund primarily invested in U.S. commercial and residential real estate with the objective to invest in real estate assets to generate capital appreciation and operating income. Investments in the fund can be redeemed with at least 90-day notice, as liquid assets in the fund permits.

(f) This category includes one private equity fund with underlying investments in direct private equity and private equity funds. Each fund has the objective to generate capital appreciation at a rate in excess of that historically generated by investments in publicly traded equity securities. The funds can only be redeemed through the liquidation of underlying assets, and as underlying assets are liquidated, distributions are received. It is estimated that the underlying assets of the illiquid funds will be liquidated between 2022 and 2024.

Valuation of alternative investments – Alternative investments that are not readily marketable or redeemable are valued utilizing the most current information provided by the fund managers using the net asset value (NAV) per share of the respective fund as a practical expedient to estimate the fair value of the University's interest in the respective fund. The NAV is determined in accordance with a fund's policies as described in their respective financial statements and offering memoranda. The most recent NAV reported, which in most instances is as of March 31 of the respective fiscal year, is adjusted for any investment-related transactions such as capital calls or distributions and significant known valuation changes of its related portfolio through May 31 of the respective fiscal year. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

Valuation limitations – The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(In Thousands)

Note 10 – Property, Plant, and Equipment, Net

Components of property, plant, and equipment, net, at May 31 are as follows:

	2022	2021
Land	$ 12,807	$ 12,807
Land improvements	9,105	8,696
Buildings	516,194	467,936
Equipment and furniture	51,007	46,420
Collection of artwork	5,232	5,091
Library books	5,789	5,690
Construction in progress	2,458	38,104
	602,592	584,744
Less accumulated depreciation	(198,614)	(181,557)
	$ 403,978	$ 403,187

Construction in progress consisted of the following major projects during the years ended May 31:

Project	Cost to Date May 31, 2021	Current Year Additions	Placed into Service	Cost to Date May 31, 2022
John and Joan Bollier Family Center for Integrated Science and Engineering Building	$ 36,928	$ 11,511	$ (48,439)	$ -
Zag Relationship Management Software	1,154	(639)	(515)	-
All other projects	22	4,174	(1,738)	2,458
Total	$ 38,104	$ 15,046	$ (50,692)	$ 2,458

Project	Cost to Date May 31, 2020	Current Year Additions	Placed into Service	Cost to Date May 31, 2021
John and Joan Bollier Family Center for Integrated Science and Engineering Building	$ 10,200	$ 26,728	$ -	$ 36,928
Zag Relationship Management Software	764	588	(198)	1,154
Cincinnati Street improvements	742	(320)	(422)	-
All other projects	212	1,495	(1,685)	22
Total	$ 11,918	$ 28,491	$ (2,305)	$ 38,104

(In Thousands)

Note 11 – Lines of Credit

The University has committed lines of credit with separate banks. Any outstanding balance is due on or before the termination of these agreements. The lines of credit consist of the following:

Line of Credit	Total Available Credit	Rate	Term	Security	Balance at May 31, 2022	Balance at May 31, 2021
Revolving operating	$ 13,000	Prime minus 1.9375%, floor of 1.3125%; 2.0625% as of May 31, 2022	3/1/2023	Parity lien on gross revenue without donor restriction	$ -	$ -
Revolving operating	10,000	30 day average secured overnight financing rate plus 1.85%, floor of 2.15%; 2.5692% as of May 31, 2022	11/22/2022	Pledge of gross revenue without donor restriction	-	-

Note 12 – Deferred Revenues and Refundable Advances

Deferred revenues and refundable advances consisted of the following:

	Balance at May 31, 2021	Revenue Recognized Included in May 31, 2021 Balance	Cash Received in Advance of Performance	Balance at May 31, 2022
Tuition	$ 13,934	$ 13,934	$ 15,155	$ 15,155
Refundable advances	8,540	1,607	2,508	9,441
	$ 22,474	$ 15,541	$ 17,663	$ 24,596

	Balance at May 31, 2020	Revenue Recognized Included in May 31, 2020 Balance	Cash Received in Advance of Performance	Balance at May 31, 2021
Tuition	$ 11,516	$ 11,516	$ 13,934	$ 13,934
Refundable advances	9,888	1,354	6	8,540
	$ 21,404	$ 12,870	$ 13,940	$ 22,474

Note 12 – Deferred Revenues and Refundable Advances (continued)

The balance of deferred revenue consists primarily of tuition received at May 31, 2022, less any refunds issued will be recognized as revenue over the academic term beginning June 1, 2022, as services are rendered.

Refundable advances consist of vendor incentive payments. The balance of refundable advances at May 31, 2022, was $9,441, of which $7,961 will be recognized as a reduction of operating expenses over the term of the agreements that expire starting in 2029 through 2031 and $1,480 will be recognized as revenue from other sources during the terms of the agreements that expire starting in 2024 through 2029.

Note 13 – Leases

The University is the lessee in two operating leases. One lease is for the rental of land and contains an option to purchase the property at the end of the lease term. At any time during the lease term, the lessor has the option of a tax-free exchange of properties that would allow the University to purchase the leased property at an earlier date. The University constructed an apartment building on this property and plans to exercise the option to purchase for $900 in 2032 at the expiration of the lease, if not executed prior. The other operating lease is for the rental of academic exhibit space that expires in 2027. This lease contains a renewal option, but the University is not reasonably certain to exercise the option to extend. This lease includes variable rent payments that increase each year based on the consumer price index. As of May 31, 2022 and 2021, the University recognized a lease liability of $1,533 and $1,632, respectively, with a corresponding right of use asset of $1,542 and $1,642, respectively, based on the present value of the minimum rental payments. Cash payments for amounts included in the measurement of lease liabilities were $146 and $146 for the years ended May 31, 2022 and 2021, respectively, and are reflected within cash flows from operating activities on the consolidated statement of cash flows. The weighted average discount rate is 3.0% and the weighted average remaining lease term is 8.4 years.

The University is the lessee in six finance leases. One lease is for the rental of an apartment complex that expires in 2094. The other five finance leases are for the rental of equipment and vehicles that expire in various years through 2029. One of the equipment lessors paid the University $3,500 to act as an agent in the purchase of leased equipment. As of May 31, 2022, only $400 of equipment had been purchased. See Note 2 for additional information about the contractually restricted cash balance. The remaining equipment will be purchased next fiscal year and will result in the increase of right of use assets. As of May 31, 2022 and 2021, the University recognized a lease liability of $5,174 and $2,252, respectively, with a corresponding right of use asset of $1,988 and $2,071, respectively, based on the present value of the minimum rental payments. Cash payments for amounts included in the measurement of lease liabilities were $674 and $309 for the years ended May 31, 2022 and 2021, respectively, and are reflected within cash flows from operating activities of $96 and $46, respectively, and cash flows from financing activities of $578 and $263, respectively, on the consolidated statement of cash flows. The weighted average discount rate is 3.2% and the weighted average remaining lease term is 10.6 years.

(In Thousands)

Note 13 – Leases (continued)

Lease costs recognized in the consolidated statement of activities as of May 31 are as follows:

	2022	2021
Finance lease cost		
Amortization of right-of-use asset	$ 484	$ 265
Interest on lease liabilities	96	46
Operating lease cost	148	146
Variable lease cost	7	2
Short-term lease cost	868	843
Total lease cost	$ 1,603	$ 1,302

Future minimum lease payments are as follows:

	Finance	Operating
Years ending May 31,		
2023	$ 1,083	$ 146
2024	1,080	146
2025	944	146
2026	696	146
2027	587	91
Thereafter	2,962	1,182
Total minimum lease payments	7,352	1,857
Amounts representing interest	(2,178)	(324)
Present value of net minimum lease payments	$ 5,174	$ 1,533

In July 2020, the University and the University of Washington each executed lease agreements for a 88,209 square foot building to be constructed by a third-party developer adjacent to the University's Spokane campus. This facility will become the new home of the University of Washington School of Medicine – Gonzaga University Health Partnership program, support a relocation of the University's Department of Human Physiology program, as well as space for expanded health science programs and research. Starting next fiscal year, the University will incur annual lease payments ranging from $1,654 to $2,170 plus common area charges, subject to annual inflation, for an initial 12-year period with five extension options to extend the term for a period of five years per option period. This lease commenced on June 20, 2022, and therefore, will be included in lease liabilities in the May 31, 2023, financial statements.

(In Thousands)

Note 14 – Notes and Bonds Payable

Notes and bonds payable consisted of the following as of May 31:

	2022	2021
Taxable bonds		
Series 2019 B	$ 19,200	$ 21,200
Series 2016 A	108,275	108,275
Series 2013 B	20,000	20,000
Tax exempt bonds		
Series 2022	9,475	-
Series 2019 A	44,685	44,685
Series 2013 A	33,000	33,000
	234,635	227,160
Unamortized net discount	(1,071)	(1,772)
Unamortized debt issuance costs	(2,063)	(2,039)
	$ 231,501	$ 223,349

The Series 2022 tax exempt bonds, issued through the Washington Higher Education Facilities Authority (WHEFA), have an original issuance of $9,475. The interest rate is fixed at 4.00%. The principal amount is due in 2047 and the bonds are callable at par in fiscal year 2032. Series 2023 tax exempt bonds were priced at the same time as the Series 2022 bonds on a forward delivery basis, but will not be issued through WHEFA until January 2023. The Series 2023 bonds (forward delivery) have an original issuance of $32,030 at an interest rate of 4.00%. Principal payments begin in 2041 with final maturity in 2043 and the bonds have a par call in 2033. The Series 2023 bonds will be used to forward call the 2013 A bonds.

The Series 2019 A tax exempt bonds, issued through WHEFA, have an original issuance of $44,685 and were issued in conjunction with the Series 2019 B bonds in October 2019. The interest rate is fixed at 3.00%. The principal amount is due in 2049 and the bonds are callable at par in fiscal year 2030.

The Series 2019 B taxable bonds, issued through WHEFA, have an original issuance of $30,315 and were issued in conjunction with the Series 2019 A bonds in October 2019. Interest rates are fixed and range from 1.896% to 2.889%. Principal payments began in 2020 with final maturity in 2034 and the bonds have an optional make-whole call.

The Series 2016 A taxable bonds have an original issuance of $108,275. The interest rate is fixed at 4.158%. Principal payments begin in 2044 with final maturity in 2046 and the bonds have an optional make-whole call.

The Series 2013 A tax exempt bonds, issued through WHEFA, have an original issuance of $33,000 and were issued in conjunction with the Series 2013 B bonds. The interest rate is fixed at 5.25%. Principal payments begin in 2041 with final maturity in 2043 and the bonds are callable at par in April 2023. As noted above, the University issued Series 2023 tax exempt bonds on a forward basis, which will be used to call the Series 2013 A bonds.

(In Thousands)

Note 14 – Notes and Bonds Payable (continued)

The Series 2013 B taxable bonds, issued through WHEFA, have an original issuance of $20,000 and were issued in conjunction with the Series 2013 A bonds. The interest rate is fixed at 6.00%. Principal payments begin in 2039 with final maturity in 2040 and the bonds have an optional make-whole call.

The taxable bonds and tax exempt bonds are secured on a parity basis by a pledge of, and lien on, all gross revenues without donor restrictions, as defined in the loan agreement.

Scheduled principal payments on notes and bonds payable are as follows:

Years ending May 31,	Principal
2023	$ 2,000
2024	2,000
2025	1,520
2026	1,520
2027	1,520
Thereafter	226,075
	234,635
Unamortized net discount	(1,071)
Unamortized debt issuance costs	(2,063)
	$ 231,501

(In Thousands)

Note 15 – Net Assets

The University's net assets were available for the following purposes at May 31:

	2022	2021
Without donor restrictions		
Available for operations	$ 83,319	$ 62,921
Property, plant, and equipment	172,263	183,045
Board-designated quasi-endowment for financial aid	42,517	39,900
Board-designated quasi-endowment for general support	29,857	28,599
Board-designated quasi-endowment for program support	10,541	10,818
Board-designated for investment in property, plant, and equipment	169	177
Total without donor restrictions	$ 338,666	$ 325,460
With donor restrictions for time or purpose		
Unappropriated donor-restricted endowment earnings	$ 161,786	$ 171,429
Property, plant, and equipment	8,257	11,910
Board-designated quasi-endowment for Foundation	1,805	1,851
Financial aid	5,413	5,697
Program support	38,463	28,502
Academic chairs	2,101	2,330
Life income funds	3,769	4,558
Annuities	663	622
Student loan program	11	11
Total with donor restrictions for time or purpose	$ 222,268	$ 226,910
With donor restrictions in perpetuity		
Financial aid	$ 137,290	$ 125,528
Program support	24,405	21,701
Academic chairs	16,920	15,156
Split-interest agreements	11,175	11,016
Student loan program	3,184	3,176
Total with donor restrictions in perpetuity	$ 192,974	$ 176,577

(In Thousands)

Note 16 – Financial Assets and Liquidity Resources

The following table reflects the University's financial assets, reduced by amounts not available for general expenditures within one year. Financial assets are unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are perpetual endowments and accumulated earnings net of appropriations within one year, amounts restricted by donors for nonoperating activities, amounts limited by the University's Board of Trustees, student loans receivable, deposits with bond trustees, and assets held by others. The University considers investment income without donor restrictions, appropriated earnings from donor-restricted and Board-designated endowments, contributions without donor restrictions, and contributions with donor restrictions for current operating activities to be available to meet cash needs for general expenditures. The University considers all expenditures related to its operating activities that are incurred in the course of the normal business operations of the University to be general expenditures.

	2022	2021
Financial assets		
Cash and cash equivalents	$ 62,886	$ 64,547
Short-term investments	38,587	33,225
Accounts and interest receivable, net	12,410	12,481
Contributions receivable, net	40,597	37,856
Student loans receivable, net	8,196	9,222
Deposits with bond trustees	10,087	13,612
Long-term investments	483,590	452,934
Beneficial interest in split-interest agreements held by others	13,632	14,125
Financial assets at May 31	669,985	638,002
Less financial assets unavailable for general expenditure within one year		
Accounts receivable beyond one year	601	625
Contributions receivable collectible beyond one year	26,595	26,285
Student loan receivable restricted for financial aid purposes	8,196	9,222
Deposits with bond trustees restricted for construction	10,087	13,612
Other assets with donor, contractual, or board restrictions for construction	6,400	5,574
Endowment assets, net of appropriation for next fiscal year	421,297	413,993
Long-term investments held in custody for others	14,402	14,787
Non-endowment investments beyond one year	9,873	7,217
Assets held by others	13,632	14,125
Financial assets unavailable for general expenditure within one year	511,083	505,440
Financial assets available to meet cash needs for general expenditure within one year	$ 158,902	$ 132,562

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due. In addition to financial assets available to meet general expenditures over the next year, the University's goal is to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the consolidated statements of cash flows, which illustrates the sources and uses of the University's cash generated by operating activities for the years ended May 31, 2022 and 2021.

(In Thousands)

Note 16 – Financial Assets and Liquidity Resources (continued)

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has $23,000 in committed lines of credit. The outstanding advances against the lines of credit for the years ended May 31, 2022 and 2021, were $0 for both years. Additionally, the University has $82,915 in Board-designated endowment and $169 in Board-designated for property, plant, and equipment. These funds remain available and may be spent at the discretion of the Board. The University maintains sufficient liquidity within the endowment to cover Board-designated amounts, funding commitments, and appropriations for spending distributions. Outstanding funding commitments are $20,505 and may be called by the investment manager at any time (see Note 9).

Note 17 – Expenses by Natural and Functional Classification

The University's primary program activity is academic instruction and support. Facilities operation and maintenance, interest, and depreciation and amortization are allocated among functional classifications based on usage of space, square footage, building costs, and debt proceeds usage. Information technology costs are allocated based on software usage and the overall number of employees in the various functional categories. All other costs are charged directly to the appropriate functional category.

Expenses by natural and functional classification for the year ended May 31, 2022, were as follows:

	Program Activities		Supporting Activities			
	Academic Instruction & Support	Student Services & Auxiliaries	Administrative Support	Fundraising	Facilities Operation & Maintenance	Total Expense
Salaries, wages, and benefits	$ 89,421	$ 36,984	$ 19,820	$ 3,148	$ 9,930	$ 159,303
Professional fees & contracted services	8,370	12,977	3,210	218	179	24,954
Depreciation and amortization	7,372	8,909	1,938	197	269	18,685
Occupancy, utilities, and maintenance	3,531	3,878	2,627	130	6,577	16,743
Materials, supplies, printing & postage	5,360	2,401	1,092	331	2,182	11,366
Meetings, travel, and memberships	1,875	6,978	1,444	425	24	10,746
Interest	2,002	5,704	899	86	152	8,843
Scholarships and student aid	4,420	-	-	-	-	4,420
Other expenses	649	2,954	557	30	7	4,197
	123,000	80,785	31,587	4,565	19,320	259,257
Facilities operation and maintenance	7,561	9,203	2,329	227	(19,320)	-
Total expenses	$ 130,561	$ 89,988	$ 33,916	$ 4,792	$ -	$ 259,257

(In Thousands)

Note 17 – Expenses by Natural and Functional Classification (continued)

Expenses by natural and functional classification for the year ended May 31, 2021, were as follows:

	Program Activities		Supporting Activities			
	Academic Instruction & Support	Student Services & Auxiliaries	Administrative Support	Fundraising	Facilities Operation & Maintenance	Total Expense
Salaries, wages, and benefits	$ 83,705	$ 33,876	$ 17,005	$ 3,010	$ 9,055	$ 146,651
Depreciation and amortization	5,845	9,726	2,194	211	174	18,150
Professional fees & contracted services	2,210	11,804	2,452	406	99	16,971
Occupancy, utilities, and maintenance	3,171	2,922	2,067	59	6,010	14,229
Interest	926	6,552	1,079	101	176	8,834
Materials, supplies, printing & postage	4,145	1,781	1,332	272	850	8,380
Meetings, travel, and memberships	475	3,905	687	79	19	5,165
Scholarships and student aid	1,410	-	-	-	-	1,410
Other expenses	549	1,887	614	33	8	3,091
	102,436	72,453	27,430	4,171	16,391	222,881
Facilities operation and maintenance	5,282	8,789	2,129	191	(16,391)	-
Total expenses	$ 107,718	$ 81,242	$ 29,559	$ 4,362	$ -	$ 222,881

Note 18 – Retirement Plans

Retirement benefits are provided to all employees (excluding students) working a minimum of 1,000 hours per year under a 403(b) defined contribution plan (Plan). Beginning the first day of the month following one year of service, eligible employees are required to contribute 5% of their salary and the University contributes 8.5%. All contributions vest immediately and are subject to annual IRS limitations. The Plan is administered by TIAA and offers a variety of investment options from TIAA and other funds. The University's expense for the Plan was $8,160 and $8,090 for the years ended May 31, 2022 and 2021, respectively.

The University maintains two 457(b) supplemental deferred compensation plans funded by highly compensated employee pre-tax dollar contributions. The original plan was frozen to new participants on December 31, 2016. The second plan commenced on January 1, 2017. Voluntary employee contributions and accumulated earnings to the 457(b) plans of $4,217 and $4,346 as of May 31, 2022 and 2021, respectively, are included in long-term investments and accrued benefits payable. By IRS regulations, these funds are considered to be assets of the University until distributed to participants.

The University also maintains a 457(f) non-qualified deferred compensation plan funded by the University. The purpose of the plan is to permit certain employees selected by the Board of Trustees to accumulate deferred compensation. The plan covers employees who are among a select group of management or highly compensated employees and contributions vest on January 15, 2024. The University's expense for the plan was $334 and $338 for the years ended May 31, 2022 and 2021, respectively. Accrued salary and benefits payable were $1,054 and $718 as of May 31, 2022 and 2021, respectively. Contributions and accumulated earnings of the 457(f) plan were $1,071 and $693 as of May 31, 2022 and 2021, respectively, and are included in long-term investments. By IRS regulations, these funds are considered to be assets of the University until distributed to the participant.

(In Thousands)

Note 19 – Related Parties

Unsecured contributions receivable and contributions revenue includes amounts from members of the Board as listed below:

	2022	2021
Contributions receivable	$ 16,657	$ 19,030
Contributions revenue	962	1,529

In August 2019, the University received a beneficial interest in a charitable lead annuity trust held by a third party from a member of the Board and recorded contribution revenue of $2,477. The trust will pay the University an annual annuity amount equal to 5% of the initial net fair market value of the property transferred to the trust. The value of the charitable lead annuity trust is $1,976 and $2,284 as of May 31, 2022 and 2021, respectively, and is included in beneficial interest in split-interest agreements held by others.

Note 20 – Commitments and Contingencies

Commitments – The University has obtained or has plans to obtain the necessary funding for the acquisition, construction, renovation, and furnishing of certain facilities that will be capitalized in the applicable capital asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects, which are expected to be completed in varying phases over the next one or two years at an estimated unexpended cost of $4,618. Of the unexpended balance, the University has remaining commitment balances of $4,618 with certain engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of May 31, 2022, were $0.

Gonzaga University has an agreement with the University of Washington, an institution of higher education and an agency of the state of Washington, School of Medicine to provide faculty, student support services, and facilities for the University of Washington School of Medicine – Gonzaga University Health Partnership. The program expands the University of Washington's Washington, Wyoming, Alaska, Montana, and Idaho medical education program in Spokane, with an emphasis in meeting the needs of rural and medically underserved communities in eastern Washington. The agreement is effective until June 30, 2034, with automatic renewals for two-year terms thereafter, unless the parties terminate the agreement via written mutual agreement or written notice of termination, by either party, 24 months in advance.

As further discussed in Note 14, the University issued 2023 tax exempt bonds with a January 2023 delivery date.

Note 20 – Commitments and Contingencies (continued)

Contingencies – From time to time, the University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements.

The University receives and expends monies under federal grant programs and is subject to audits by governmental agencies. The University believes that any liabilities resulting from such audits would not have a material impact on the consolidated financial statements of the University.

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. The University implemented precautionary measures to continue operations consistent with the guidance of government authorities. The Board of Trustees and the University's management are monitoring the outbreak and potential financial impact. The duration and intensity of the impact of the coronavirus and resulting disruption to the University's operations are uncertain and could adversely affect financial results.

Mission Statement

Gonzaga University is an exemplary learning community that educates students for lives of leadership and service for the common good.

In keeping with its Catholic, Jesuit, and humanistic heritage and identity, Gonzaga models and expects excellence in academic and professional pursuits and intentionally develops the whole person — intellectually, spiritually, culturally, physically, and emotionally.

Through engagement with knowledge, wisdom, and questions informed by classical and contemporary perspectives, Gonzaga cultivates in its students the capacities and dispositions for reflective and critical thought, lifelong learning, spiritual growth, ethical discernment, creativity, and innovation.

The Gonzaga experience fosters a mature commitment to dignity of the human person, social justice, diversity, intercultural competence, global engagement, solidarity with the poor and vulnerable, and care for the planet. Grateful to God, the Gonzaga community carries out this mission with responsible stewardship of our physical, financial, and human resources.

Vision Statement

Gonzaga is a premier Liberal Arts based University recognized nationally for providing an exemplary Jesuit education that empowers its graduates to lead, shape, and serve their chosen fields and the communities to which they belong.

GONZAGA
UNIVERSITY

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