GONZAGA UNIVERSITY
FINANCIAL REPORT 2018-19

GONZAGA UNIVERSITY

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Greetings:

In April 2019, the curtain rose with A New Season: A Celebration of Artistry, Place and Potential – an original production that showcased the diverse talents of over 125 performers from the Gonzaga repertory dance company, acting and dance ensembles, concert choir, and chamber orchestra. The event marked the grand opening of the 759-seat Myrtle Woldson Performing Arts Center, a venue that will play host to dozens of student and touring performances each year as it takes its place as a premiere performing arts venue in the Inland Northwest.

A “new season” is also a befitting way to describe Gonzaga University as we close out our 2018-19 fiscal year. Beyond the array of the normal comings and goings such as new student orientation, visiting speakers, events, athletic games and tournaments, and commencement – we also bore witness to a number of other transitions:

- We adopted the provost organizational model, bringing together the functions of academics, student development, and admissions to form one cohesive student-centered unit. Leading this effort is Dr. Deena González who joined Gonzaga in June 2019 as the University’s first regularly appointed Provost and Senior Vice President. Together with Dr. González we also welcomed four new academic deans – Dr. Yolanda Gallardo Carter (School of Education), Dr. Karlene Hoo (School of Engineering and Applied Science), Dr. Rosemarie Hunter (School of Leadership Studies), and Dr. Vincent Salyers (School of Nursing and Human Physiology). Together with other colleagues in academics, student development and admissions, the provost function will drive new and exciting programming and initiatives guided by our mission and strategic plan.

- We closed our major fundraising campaign, “Gonzaga Will: The Campaign for our Future”. Publically launched in 2015 with a goal of $250 million, the campaign raised $355.4 million from over 40,000 donors. Approximately $110 million of the funds raised are directly for scholarships. Campaign gifts have also allowed us to finalize the construction of the Myrtle Woldson Performing Arts Center, the Della Strada Jesuit Community (residence for Jesuits serving various ministries in the Inland Northwest), the Volkar Center for Athletic Achievement (athletic practice, fitness, academic, and team space), the John J. Hemmingson University Center (student dining, programming, and administration), the Stevens Center (tennis and golf), Luger Field (soccer), the Center for Humanities (former Jesuit residence, renovated for the College of Arts and Sciences dean’s office, other faculty offices and academic centers), and the Boone Avenue Retail Center (campus bookstore, parking garage, and administrative offices).

- We experienced an intentional process of communal discernment called the Mission Priority Examen, creating an opportunity to increase our awareness of how we live our mission and how we aspire to grow, as a Jesuit, Catholic and humanistic university in the future. Such communal discernment is especially meaningful during a time when much of the work is done through the commitment of lay colleagues.

- We entered into an agreement with a development company that will transform a surface parking lot owned by the University in downtown Seattle, Washington into a 340,000 square-foot multi-family residential facility in exchange for a long-duration unsubordinated ground lease. The ground lease of this endowment asset creates a durable income stream to support student scholarships and captures the economics of one of the few undeveloped blocks along the downtown Seattle waterfront. The project is projected for completion in mid to late 2022.

- We marked the third year of the University of Washington School of Medicine–Gonzaga University Regional Health Partnership, with Gonzaga hosting approximately 160 first and second year medical students on its Spokane campus. Gonzaga provides faculty, student support services, and facilities for the University of Washington School of Medicine WWAMI program, a five-state regional, community-based medical education program. Together with the University of Washington, Gonzaga University is committed to charting a course forward to include the possible creation of a new joint use facility, as well as other cooperative academic pursuits.

Following is a summary related to the financial performance for the fiscal year ended May 31, 2019.

Consolidated Statement of Financial Position

Assets

Assets, totaling $850.1 million as of May 31, 2019, increased $23.0 million or 2.8% 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 $74.4 million as of May 31, 2019, a decrease of $14.2 million or 16.1% 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 needed contingencies and reserves. The decrease during fiscal year 2018-19 is due largely to expenditures for construction in progress and other capital improvements totaling $32.0 million, with the remainder of the change resulting from cash generated from operations, changes in investments, cash receipts from gifts, debt payments and other activity.

Contributions receivable, net totaled $37.1 million as of May 31, 2019, an increase of $5.1 million or 15.8% from the prior fiscal year. Of this amount, $36.3 million is expected to be realized within the next five years. Contributions receivable are principally the result of the Gonzaga Will campaign.

Long-term investments and beneficial interest in split interest agreements held by others totaled $318.5 million, an increase of $12.9 million or 4.2% from the prior fiscal year. Such amounts represent 37.5% of total assets as of May 31, 2019 and are substantially comprised of endowment assets. The diversified endowment investment pool net return was 3.6% for the fiscal year. Investment net returns together with new endowment gifts of $7.7 million are offset by an annual spending distribution of $11.8 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 (27%), international equities (27%), fixed income (21%), alternative investments (15%) and real assets (10%). The pooled endowment achieved annualized net returns ranking among the top 25% of higher education institutions nationwide for the one-, three-, five-, and 10-year periods ending June 30, 2018 (the most currently available data)[1]. The ten-year annualized net return was 6.9% as of June 30, 2018, or 110 basis points higher than the NTSE average for all participants.

Property, plant, and equipment, net, totaled $390.0 million as of May 31, 2019, an increase of $18.1 million or 4.9% 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 majority of the net increase stems from the completion of the Myrtle Woldson Performing Arts Center, offset by depreciation expense. 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 $261.7 million as of May 31, 2019, a decrease of $4.5 million or 1.7% from the prior fiscal year. In addition to shorter-term obligations to vendors 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, 2019, notes and bonds payable decreased $3.4 million or 1.8% due to principal payments with no new borrowing. Of the total outstanding notes and bonds payable as of May 31, 2019, approximately 97% of the principal outstanding represents notes and bonds payable that carry a fixed interest rate directly or indirectly via interest rate swaps. This largely fixed-rate structure provides a higher degree of certainty as to the annual debt service payments given that such rates are not subject to variability. Further, Gonzaga's currently scheduled annual total debt service and net interest rate swap obligations through fiscal year 2021-22 remain largely unchanged, ranging between $12.1 million and $12.6 million per year, subject to variability from the 5% of notes and bonds payable as of May 31, 2019 that have unhedged variable rate exposures. Together, the overall debt portfolio represents a 4.60% weighted average cost of borrowed funds (non-time weighted, proceeds-based calculation methodology). Selected bonds are rated by Moody's Investor Service and Fitch Ratings, and carry an "A3" (outlook positive) and "A" (outlook stable), respectively.

Net Assets

Net assets were $588.4 million as of May 31, 2019, an increase of $27.5 million or 4.9% 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 after the annual spending distribution, and 3) contributions towards non-operating activities, such as capital and endowment contributions.

[1] *Source: NACUBO TIAA Study of Endowments® (NTSE), 2018*

Net assets without donor restrictions totaled $303.8 million as of May 31, 2019, an increase of $56.2 million or 22.7% from the prior year (note the May 31, 2018, balance was revised with the adoption of a new accounting standard). The increase is due to operating activities of $1.1 million and non-operating activities of $55.0 million. Changes in non-operating activities were largely driven by net assets released from restriction for the acquisition of capital assets.

Net assets with donor restrictions for time or purpose totaled $124.6 million as of May 31, 2019, a decrease of $37.0 million or 22.9% from the prior year (note the May 31, 2018, balance was revised with the adoption of a new accounting standard). The decrease was due primarily to net investment returns of $12.6 million and contributions of $22.3 million, both of which were primarily offset by the release of restrictions of $73.7 million.

Net assets with donor restrictions in perpetuity totaled $160.0 million as of May 31, 2019, an increase of $8.3 million or 5.5% from the prior fiscal year. The increase was due to new contributions to the endowment fund.

Consolidated Statement of Activities

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

Operating Activities

For the year ended May 31, 2019, total operating activities resulted in a $6.3 million increase in net assets, compared with a $6.4 million increase in the year prior. For the years ended May 31, 2019 and 2018, the operating margin was 2.6% and 2.8%, respectively. The change in net assets from operating activities includes depreciation, the most significant non-cash expense, which was $17.7 million and $14.1 million for the years ended May 31, 2019 and 2018, respectively. Excluding depreciation and other non-cash items, Gonzaga generated cash from operating activities of $2.2 million and $2.8 million for the years ended May 31, 2019 and 2018, respectively.

For the year ended May 31, 2019, total operating revenues increased $12.5 million or 5.4% from the prior year. The most significant component of operating revenues is student tuition and fees, net of institutional financial aid, which increased $7.5 million or 4.6% from the prior fiscal year. The change is driven by an increase in undergraduate net tuition revenue of $8.9 million stemming from a 4.5% tuition rate increase, an increase in undergraduate enrollment of 95 students and stable retention rates, partially offset by a slightly higher tuition discount rate for the freshmen class. Graduate revenues, including law, decreased by $0.3 million due largely to a decrease in overall credit generation of 2.7% and changes in tuition per graduate credit that vary by program. While operating revenues come largely from student tuition and fees, 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.

For the year ended May 31, 2019, total operating expenses increased $12.6 million or 5.6% from the prior year. Gonzaga, like all colleges and universities, incurs significant costs in the form of salaries and benefits, representing 59.7% of total operating expenses. Overall, salaries, wages and benefits increased $3.2 million or 2.3% from the prior year, largely driven by annual survey increases for faculty and staff, legislation in the State of Washington to increase the hourly minimum wage, changes in employee headcount, and increased benefit costs. Other cost increases were largely driven by inflations, changes in use patterns, and the expansion of facilities.

Nonoperating Activities

In addition to operations, Gonzaga reports other changes in net assets from those activities that are not directly attributable to its annual operations. Most notably, contributions for the acquisition of capital assets and contributions to endowment funds, together were $14.1 million for the year ended May 31, 2019, an increase of $4.3 million compared to the prior fiscal year. The change is largely due to the timing and magnitude of various gifts during the Gonzaga Will campaign. Another significant nonoperating activity is investment performance. The net return on investment activity beyond the amount used for the annual spending distribution was $6.1 million, a $5.3 million decrease from the prior fiscal year.

Closing Remarks

As we close the 2018-19 fiscal year, the University is poised to continue as an exemplary learning community that educates students for lives of leadership and service for the common good. Gonzaga will continue its deep tradition to intentionally develop the whole person -- intellectually, spiritually, culturally, physically, and emotionally. Filled with faith, purpose and confidence that Gonzaga University will continue to thrive and flourish, we remain forever grateful to all those, past and present, who support the work of Gonzaga University is so many ways.

Sincerely,

Joe

Joe Smith, CPA, CGMA
Chief Financial Officer

August 2019

Gonzaga University
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 from prior periods and other official university sources.

As of May 31	2019	2018*	2017*	2016*	2015*
Consolidated Statement of Financial Position Data					
Cash, cash equivalents, and short-term investments	$ 74,421	$ 88,650	$ 128,749	$ 74,919	$ 77,119
Contributions receivable, net	37,086	32,020	31,520	81,665	78,719
Long-term investments (1)	318,456	305,548	294,781	230,321	231,621
Property, plant, and equipment, net	390,024	371,950	318,679	296,957	291,696
Total assets	850,117	827,088	802,600	724,478	717,879
Notes and bonds payable	185,403	188,772	192,061	170,250	176,097
Total liabilities	261,674	266,148	271,961	241,287	251,512
Net assets without donor restrictions	303,791	247,592	212,454	204,334	167,172
Net assets with donor restrictions for time or purpose	124,613	161,604	173,605	162,444	173,038
Net assets with donor restrictions in perpetuity	160,039	151,744	144,580	116,413	126,157
Total net assets	588,443	560,940	530,639	483,191	466,367

For the year ended May 31	2019	2018	2017	2016	2015
Consolidated Statement of Activities and Other Data					
Student tuition and fees, net of institutional financial aid	$ 168,749	$ 161,277	$ 154,985	$ 151,410	$ 142,770
Total operating revenues (2)	244,441	231,953	218,339	214,689	203,956
Total operating expenses (2)	238,132	225,525	219,490	209,289	194,883
Increase (decrease) in net assets from operations (2)	6,309	6,428	(1,151)	5,400	9,073
Increase in net assets from nonoperating activities (3)	21,194	23,873	48,599	11,424	74,449
Increase in total net assets	27,503	30,301	47,448	16,824	83,522
Pooled investment fund return	3.6%	11.5%	14.0%	-2.0%	6.5%

Measured in the fall of the applicable fiscal year	2019	2018	2017	2016	2015
Other Data					
Enrollment by headcount					
Undergraduate	5,304	5,209	5,160	5,041	4,837
Graduate	1,909	1,981	2,100	2,111	2,178
Law	350	316	312	339	339
Total enrollment	7,563	7,506	7,572	7,491	7,354
Employees (4)					
Faculty	465	448	447	435	436
Staff and administration	854	862	852	815	811
Total employees	1,319	1,310	1,299	1,250	1,247

* Certain reclassifications were made to prior periods to be in accordance with the May 31, 2019 consolidated financial statement presentation and the adoption of new accounting pronouncement. Refer to Note 2 in the notes accompanying the consolidated financial statements.

(1) Includes beneficial interest in split-interest agreements held by 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 part-time student employees.

MOSSADAMS

Report of Independent Auditors

President and Board of Trustees
Gonzaga University

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gonzaga University (a Washington nonprofit corporation), which comprise the consolidated statements of financial position as of May 31, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gonzaga University as of May 31, 2019 and 2018, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
August 28, 2019

ASSETS

	(in thousands) May 31, 2019	(in thousands) May 31, 2018
Cash and cash equivalents	$ 59,674	$ 27,158
Short-term investments	14,747	61,492
Accounts and interest receivable, net	12,335	9,742
Prepaid expenses	4,677	3,603
Contributions receivable, net	37,086	32,020
Student loans receivable, net	13,118	15,575
Long-term investments	309,292	297,862
Beneficial interest in split-interest agreements held by others	9,164	7,686
Property, plant, and equipment, net	390,024	371,950
Total assets	$ 850,117	$ 827,088

LIABILITIES AND NET ASSETS

	2019	2018
LIABILITIES		
Accounts and other payables	$ 11,941	$ 16,017
Accrued salaries, taxes, and benefits	20,536	20,082
Interest payable	1,287	1,303
Deferred revenues and refundable advances	22,495	20,353
Split-interest agreement obligations	5,277	5,346
Federal student loan program	10,779	10,683
Obligation under interest rate swaps	3,956	3,592
Notes and bonds payable	185,403	188,772
Total liabilities	261,674	266,148
NET ASSETS		
Without donor restrictions	303,791	247,592
With donor restrictions		
Time or purpose	124,613	161,604
Perpetuity	160,039	151,744
Total with donor restrictions	284,652	313,348
Total net assets	588,443	560,940
Total liabilities and net assets	$ 850,117	$ 827,088

Gonzaga University
Consolidated Statements of Activities

	(in thousands) Year Ended May 31, 2019			
	Without Donor Restrictions	With Donor Restrictions	Total	Year Ended May 31, 2018 Total
Operating revenues				
Student tuition and fees, net	$ 279,912	$ -	$ 279,912	$ 264,077
Less institutional financial aid	(111,163)	-	(111,163)	(102,800)
	168,749	-	168,749	161,277
Contributions	490	15,889	16,379	14,777
Grants and contracts	101	814	915	1,259
Return on investments designated for operating activities	674	(3)	671	1,582
Endowment income distributed for operating activities	2,292	9,476	11,768	8,770
Auxiliary enterprises	28,485	-	28,485	28,009
Other sources	17,442	32	17,474	16,279
Net assets released from restrictions	21,014	(21,014)	-	-
Total operating revenues	239,247	5,194	244,441	231,953
Operating expenses				
Salaries, wages, and benefits	142,161	-	142,161	138,933
Professional fees and contracted services	25,372	-	25,372	22,080
Depreciation	17,746	-	17,746	14,122
Occupancy, utilities, and maintenance	13,917	-	13,917	13,371
Meetings, travel, and memberships	13,635	-	13,635	13,435
Materials, supplies, printing, and postage	12,666	-	12,666	11,291
Interest	8,000	-	8,000	8,196
Other expenses	4,635	-	4,635	4,097
Total operating expenses	238,132	-	238,132	225,525
Increase in net assets from operations	1,115	5,194	6,309	6,428
Nonoperating activities				
Contributions for acquisition of capital assets, net	-	6,408	6,408	6,139
Contributions to endowment funds, net	-	7,694	7,694	3,691
Gain on disposal of equipment	38	-	38	110
Return on investments	5,319	12,582	17,901	20,181
Endowment income distributed for operating activities	(2,292)	(9,476)	(11,768)	(8,770)
Gain on settlement	-	-	-	195
Change in value of interest rate swaps	(364)	-	(364)	1,809
Change in value of split-interest agreements	-	1,285	1,285	518
Net assets released from restrictions for acquisition of capital assets	52,647	(52,647)	-	-
Transfers	(264)	264	-	-
Total nonoperating activities	55,084	(33,890)	21,194	23,873
Increase (decrease) in net assets	56,199	(28,696)	27,503	30,301
Net assets at beginning of year	247,592	313,348	560,940	530,639
Net assets at end of year	$ 303,791	$ 284,652	$ 588,443	$ 560,940

See accompanying notes.

	(in thousands) Year Ended May 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Student tuition and fees, net	$ 264,077	$ -	$ 264,077
Less institutional financial aid	(102,800)	-	(102,800)
	161,277	-	161,277
Contributions	380	14,397	14,777
Grants and contracts	1,259	-	1,259
Return on investments designated for operating activities	1,318	264	1,582
Endowment income distributed for operating activities	1,880	6,890	8,770
Auxiliary enterprises	28,009	-	28,009
Other sources	16,213	66	16,279
Net assets released from restrictions	22,466	(22,466)	-
Total operating revenues	232,802	(849)	231,953
Operating expenses			
Salaries, wages, and benefits	138,933	-	138,933
Professional fees and contracted services	22,080	-	22,080
Depreciation	14,122	-	14,122
Occupancy, utilities, and maintenance	13,371	-	13,371
Meetings, travel, and memberships	13,435	-	13,435
Materials, supplies, printing, and postage	11,291	-	11,291
Interest	8,196	-	8,196
Other expenses	4,097	-	4,097
Total operating expenses	225,525	-	225,525
Increase (decrease) in net assets from operations	7,277	(849)	6,428
Nonoperating activities			
Contributions for acquisition of capital assets, net	-	6,139	6,139
Contributions to endowment funds, net	-	3,691	3,691
Gain on disposal of equipment	110	-	110
Return on investments	2,427	17,754	20,181
Endowment income distributed for operating activities	(1,880)	(6,890)	(8,770)
Gain on settlement	195	-	195
Change in value of interest rate swaps	1,809	-	1,809
Change in value of split-interest agreements	-	518	518
Net assets released from restrictions for acquisition of capital assets	24,679	(24,679)	-
Transfers	88	(88)	-
Total nonoperating activities	27,428	(3,555)	23,873
Increase (decrease) in net assets	34,705	(4,404)	30,301
Net assets at beginning of year	212,887	317,752	530,639
Net assets at end of year	$ 247,592	$ 313,348	$ 560,940

Gonzaga University
Consolidated Statements of Cash Flows

	(in thousands) Years Ended May 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 27,503	$ 30,301
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation and amortization	17,826	14,202
Provision for uncollectible receivables	1,287	1,681
Gain on disposal of equipment	(38)	(110)
Contributions restricted for long-term purposes	(14,102)	(9,830)
Interest and dividends restricted for long-term investment	(5,267)	(5,167)
Net realized and unrealized gain on investments	(11,527)	(14,625)
Gain on settlement	-	(195)
Change in value of interest rate swaps	364	(1,809)
Change in value of split-interest agreements	(1,285)	(518)
Other change in assets and liabilities, net	(12,526)	(11,160)
Net cash from operating activities	2,235	2,770
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(31,988)	(57,318)
Proceeds from sale of property and equipment	39	143
Proceeds from sale of investments	70,241	114,385
Purchase of investments	(23,195)	(54,484)
Issuance of student loans receivable	(54)	(2,740)
Repayment of student loans receivable	2,377	2,347
Reimbursements from deposits held with bond trustees	-	17
Net cash from investing activities	17,420	2,350
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	10,798	8,328
Proceeds from contributions for split-interest agreements	400	170
Proceeds from settlement	-	195
Payments on notes and bonds	(3,449)	(3,421)
Payments on split-interest agreements	(251)	(234)
Interest and dividends restricted for long-term investment	5,267	5,167
Net change in student loan liability	96	(219)
Net cash from financing activities	12,861	9,986
NET CHANGE IN CASH AND CASH EQUIVALENTS	32,516	15,106
CASH AND CASH EQUIVALENTS, beginning of year	27,158	12,052
CASH AND CASH EQUIVALENTS, end of year	$ 59,674	$ 27,158
SUPPLEMENTAL DISCLOSURES		
Interest paid (includes capitalized interest of $1,121 and $1,021 for 2019 and 2018, respectively)	$ 9,057	$ 9,167
Noncash acquisition of property, plant, and equipment	3,026	9,938
Noncash gifts of investments and property, plant, and equipment	1,270	462

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., 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. 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, 2019			
	Corporation	All Other Entities	Inter-Entity Elimination	Consolidated Total
Assets	$ 848,683	$ 94,938	$ (93,504)	$ 850,117
Liabilities	$ 285,215	$ 5,163	$ (28,704)	$ 261,674
NET ASSETS				
Without donor restrictions	303,191	67,550	(66,950)	303,791
With donor restrictions				
Time or purpose	110,698	11,765	2,150	124,613
Perpetual	149,579	10,460	-	160,039
Total net assets	563,468	89,775	(64,800)	588,443
Total liabilities and net assets	$ 848,683	$ 94,938	$ (93,504)	$ 850,117

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 tickets 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 restricted for investment in property, plant, and equipment of $1,468 and $26,152 as of May 31, 2019 and 2018, 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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

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 $3,645 and $3,597 as of May 31, 2019 and 2018, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,770 and $1,603 as of May 31, 2019 and 2018, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

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 5% 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 artwork, is provided for on a straight-line basis over the estimated useful lives of the respective assets as follows:

Land improvements	25 years
Buildings	20 – 50 years
Equipment and furniture	3 – 10 years
Library books	10 years

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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. In addition, 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. 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 and contracts and contributions, including unconditional promises to give, are recognized in the period received 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.

Advertising – Costs expensed for the years ended May 31, 2019 and 2018, were $2,637 and $3,033, respectively.

Derivative financial instruments – The University does not enter into derivative instruments for any purpose other than cash flow hedging purposes and does not speculate for investment purposes using derivative instruments.

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, 2019 and 2018, 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.

(In Thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

New accounting pronouncements – *Presentation of Financial Statements of Not-for-Profit Entities:* The University adopted Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during the year ended May 31, 2019. The standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

The standard requires the University to reclassify its net assets from three categories into two categories and recognition of underwater endowment funds as a reduction of net assets with donor restrictions. It also requires enhanced disclosures for board designations, composition of net assets without donor restrictions, liquidity, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

Net assets have been reclassified for 2018 due to the adoption of ASU 2016-14 as follows:

	ASU 2016-14 Classifications		
Net Asset Classification May 31, 2018	Without donor restrictions	With donor restrictions	Total Net Assets
Unrestricted	$ 245,571	$ -	$ 245,571
Temporarily restricted	-	163,625	163,625
Permanently restricted	-	151,744	151,744
Net assets as previously presented	245,571	315,369	560,940
Reclassification			
Underwater endowments	2,021	(2,021)	-
Net assets as reported after adoption of ASU 2016-14	$ 247,592	$ 313,348	$ 560,940

Revenue from Contracts with Customers: The University adopted ASU 2014-09 – *Revenue from Contracts with Customers* (Topic 606) during the year ended May 31, 2019. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The University's revenue is derived primarily from academic programs taught to students. Tuition and related fees are recognized as revenue over the course of the academic term or program for which it is earned. Non-tuition related revenue is recognized as services are performed or goods are delivered. The adoption of ASU 2014-09 did not result in a material change to the timing of when revenue is recognized.

(In Thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

The University used the modified retrospective method applied to contracts that have remaining obligations as of June 1, 2018. Under this approach, the University did not restate comparative periods in the consolidated financial statements.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made: The University adopted ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* during the year ended May 31, 2019. The ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The adoption did not result in a material change to how the University accounts for revenue from contributions, grants and contracts.

Reclassifications – Certain reclassifications were made to the 2018 consolidated financial statements to be in accordance with the 2019 presentation. The reclassifications have no effect on the total change in net assets as previously reported.

Subsequent events – The University has evaluated subsequent events through August 28, 2019, 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:

	2019	2018
Government grants and loan funds	$ 7,090	$ 6,706
Student receivables	926	921
Miscellaneous receivables	4,164	1,935
Accrued interest receivable	255	280
	12,435	9,842
Less allowance for doubtful accounts	(100)	(100)
	$ 12,335	$ 9,742

(In Thousands)

Note 4 – Contributions Receivable, Net

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

	2019	2018
In one year or less	$ 11,257	$ 9,003
Between one year and five years	25,090	20,524
More than five years	12,916	14,007
Less present value discounts	(10,597)	(10,494)
	38,666	33,040
Less allowance for doubtful accounts	(1,580)	(1,020)
	$ 37,086	$ 32,020

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

	2019	2018
With donor restrictions for financial aid and program support	$ 10,030	$ 6,619
With donor restrictions for property, plant, and equipment	22,355	21,028
With donor restrictions for endowment financial aid and chairs	4,701	4,373
	$ 37,086	$ 32,020

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:

	2019	2018
Federal government programs	$ 11,948	$ 14,305
Institutional programs	1,423	1,594
	13,371	15,899
Less allowance for doubtful accounts	(253)	(324)
Student loans receivable, net	$ 13,118	$ 15,575

(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 $10,779 and $10,683 at May 31, 2019 and 2018, 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 10 years.

At May 31, 2019 and 2018, 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
2019	$ 5	$ -	$ -	$ 23	$ 195	$ 496	$ 719
2018	$ 26	$ 4	$ -	$ 4	$ 264	$ 531	$ 829

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 – Investments

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

	2019	2018
Fixed income securities	$ 14,747	$ 61,492

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 1.00 years as of May 31, 2019.

(In Thousands)

Note 6 – Investments (continued)

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

	2019	2018
Cash and cash equivalents	$ 2,383	$ 473
Equity securities	110,278	107,264
Fixed income securities	34,278	37,560
Alternative investments	82,083	80,468
Direct real property investments	68,418	60,176
Split-interest agreements	11,109	11,169
Other	743	752
	$ 309,292	$ 297,862

Direct real property investments include gifted properties held for resale, as well as three real property assets in downtown Seattle, Washington received through an estate gift. The Seattle properties are each 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.

The University entered into a ground lease agreement in March 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 process. In the event the lessee is unable to obtain all regulatory approvals within 31 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.

The annual ground lease payments are on a triple-net basis, subject to annual adjustment, and reset every twenty years. 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 payments received on the development ground lease for the year ended May 31, 2019, are $180 and are recorded as return on investments in the consolidated statements of activities.

The University also has lease agreements with an unrelated third-party parking company to operate the two parking garages, and the portion of the surface parking lot that is not part of the development ground lease. These leases expire 2019, 2020, and 2022 and can be terminated at any time with notice. The total payments received by the University on these agreements for the years ended May 31, 2019 and 2018 are $1,942 and $891, respectively, and are recorded as return on investments in the consolidated statements of activities.

(In Thousands)

Note 6 – Investments (continued)

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

	2019	2018
Managed diversified global multi-asset fund	$ 56,768	$ 50,073
Private credit funds	7,405	8,973
Hedge and other funds	10,368	13,578
Real estate funds	5,450	5,050
Diversified fund of funds	2,092	2,794
	$ 82,083	$ 80,468

Long-term investments are largely composed of donor-restricted and board-designated funds. Long-term investments are managed within various investment portfolios. See Note 7 for return objectives and risk parameters for such funds.

Note 7 – 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:

	2019				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Return on Investments, Net of Distributions	Foundation Board-Designated (1)	Total
Board-designated funds	$ 61,840	$ -	$ -	$ 1,700	$ 63,540
Donor-restricted funds	-	159,540	83,233	-	242,773
Underwater funds	-	499	(407)	-	92
	$ 61,840	$ 160,039	$ 82,826	$ 1,700	$ 306,405

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

(In Thousands)

Note 7 – Endowment (continued)

	2018				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Return on Investments, Net of Distributions	Foundation Board-Designated (1)	Total
Board-designated funds	$ 56,710	$ -	$ -	$ 1,721	$ 58,431
Donor-restricted funds	-	120,670	81,913	-	202,583
Underwater funds	-	31,074	(2,021)	-	29,053
	$ 56,710	$ 151,744	$ 79,892	$ 1,721	$ 290,067

(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 7 – 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 $407 and $2,021 as of May 31, 2019 and 2018, respectively.

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 56,710	$ 233,357	$ 290,067
Return on investments, net	5,319	12,535	17,854
Contributions	-	7,694	7,694
Amount distributed for operating activities	(2,292)	(9,476)	(11,768)
Transfers	2,103	455	2,558
Net assets, end of year	$ 61,840	$ 244,565	$ 306,405

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 56,185	$ 215,468	$ 271,653
Return on investments, net	2,428	18,066	20,494
Contributions	-	3,691	3,691
Amount distributed for operating activities	(1,880)	(6,890)	(8,770)
Transfers	(23)	3,022	2,999
Net assets, end of year	$ 56,710	$ 233,357	$ 290,067

Note 8 – 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.

Transfers between the levels are recognized on the actual date of the transaction or circumstance that caused the transfer.

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, 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.

- Interest rate swaps valued using estimates of the related LIBOR rates and the BMA municipal swap index rates during the term of the swap agreements.

Note 8 – 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 4.4% for one garage and 2.9% 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 $1,824. A 0.25% increase in the underlying income capitalization rates would decrease the fair value of the two parking garages by approximately $1,634. The primary unobservable inputs for the surface parking lot, valued 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 eight 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 2.0% to 4.3%, and applicable life expectancies that range from 5 to 25 years. A 1.0% increase in each of the underlying discount rates would decrease the fair value by approximately $267. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately $330. The sensitivity associated with changes in life expectancies is not quantified.

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.

(In Thousands)

Note 8 – 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, 2019			
	Level 1	Level 2	Level 3	Total
Short-term investments				
Certificates of deposit	$ -	$ 1,140	$ -	$ 1,140
U.S. government and agency obligations	-	1,990	-	1,990
Corporate bonds	-	11,617	-	11,617
Total short-term investments	-	14,747	-	14,747
Long-term investments				
Cash and cash equivalents	2,383	-	-	2,383
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	46,134	-	-	46,134
International	28,269	20,645	-	48,914
Direct ownership - public and privately held stock	14,589	15	626	15,230
Fixed income securities				
Mutual funds and index funds				
Domestic	29,345	-	-	29,345
International	4,933	-	-	4,933
Direct real property investments	-	3,618	64,800	68,418
Assets held under split-interest agreements				
Cash and cash equivalents	463	-	-	463
Equity mutual funds	822	-	-	822
Equity-direct ownership	6,824	-	-	6,824
Fixed income mutual funds	3,000	-	-	3,000
Other	312	431	-	743
Total long-term investments in fair value hierarchy	137,074	24,709	65,426	227,209
Beneficial interest in split-interest agreements held by others	-	-	9,164	9,164
Total assets in fair value hierarchy	$ 137,074	$ 39,456	$ 74,590	$ 251,120
Obligation under interest rate swaps	$ -	$ (3,956)	$ -	$ (3,956)
Total liabilities in fair value hierarchy	$ -	$ (3,956)	$ -	$ (3,956)
Long-term investments measured at NAV practical expedient[(1)]				$ 82,083

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value 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.

(In Thousands)

Note 8 – Fair Value of Financial Instruments (continued)

	May 31, 2018			
	Level 1	Level 2	Level 3	Total
Short-term investments				
Domestic fixed income mutual fund	$ 13,352	$ -	$ -	$ 13,352
U.S. government and agency obligations	-	15,141	-	15,141
Corporate bonds	-	32,947	-	32,947
Asset-backed obligations	-	52	-	52
Total short-term investments	13,352	48,140	-	61,492
Long-term investments				
Cash and cash equivalents	473	-	-	473
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	43,238	-	-	43,238
International	25,714	22,919	-	48,633
Direct ownership - public and privately held stock	14,683	25	685	15,393
Fixed income securities				
Mutual funds and index funds				
Domestic	32,853	-	-	32,853
International	4,707	-	-	4,707
Direct real property investments	-	5,376	54,800	60,176
Assets held under split-interest agreements				
Cash and cash equivalents	602	-	-	602
Equity mutual funds	7,013	-	-	7,013
Equity-direct ownership	848	-	-	848
Fixed income mutual funds	2,706	-	-	2,706
Other	315	437	-	752
Total long-term investments in fair value hierarchy	133,152	28,757	55,485	217,394
Beneficial interest in split-interest agreements held by others	-	-	7,686	7,686
Total assets in fair value hierarchy	$ 146,504	$ 76,897	$ 63,171	$ 286,572
Obligation under interest rate swaps	$ -	$ (3,592)	$ -	$ (3,592)
Total liabilities in fair value hierarchy	$ -	$ (3,592)	$ -	$ (3,592)
Long-term investments measured at NAV practical expedient[(1)]				$ 80,468

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value 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.

(In Thousands)

Note 8 – Fair Value of Financial Instruments (continued)

Following is a reconciliation of activity for the years ended May 31, 2019 and 2018, 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, 2017	$ 738	$ 59,170	$ 7,612	$ 67,520
Return on investments	(53)	(2,760)	395	(2,418)
Return of capital/transfers to income	-	(1,610)	(321)	(1,931)
Balance, May 31, 2018	685	54,800	7,686	63,171
Return on investments	(59)	11,480	1,556	12,977
Return of capital/transfers to income	-	(1,480)	(78)	(1,558)
Balance, May 31, 2019	$ 626	$ 64,800	$ 9,164	$ 74,590

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

	Fair Value at May 31, 2019	Unfunded Cash Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	Investment Strategies and Other Restrictions
Commingled funds (Level 2)	$ 20,645	$ -	(a)	(a)	(a)
Limited partnership investments					
Managed diversified global multi-asset fund	56,768	-	(b)	(b)	(b)
Private credit funds	7,405	3,143	(c)	n/a	(c)
Diversified fund of funds	2,092	39	(d)	n/a	(d)
Real estate fund	5,450	-	(e)	(e)	(e)
Hedge and other funds	10,368	557	(f)	(f)	(f)
Total long-term investments measured at NAV practical expedient	82,083	3,739			
	$ 102,728	$ 3,739			

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

Note 8 – Fair Value of Financial Instruments (continued)

(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, 2019, the value of the liquid portion is $8,430. 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 three private credit funds, including a mezzanine debt fund, a special opportunities 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 2019 and 2024.

(d) This category includes three private equity funds with underlying investments in domestic equity, buyout, venture capital, 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 2019 and 2024.

(In Thousands)

Note 8 – Fair Value of Financial Instruments (continued)

(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 a hedge fund (3%) and three private equity funds (97%). The hedge fund seeks to efficiently capture a diversified set of classic hedge fund strategies with little or no correlation to traditional assets classes, and can be withdrawn with 75-day notice. The three private equity funds invest in privately held entities with potential for significant growth in revenue and earnings. 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 2019 and 2030.

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.

Note 9 – Property, Plant, and Equipment, Net

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

	2019	2018
Land	$ 12,576	$ 10,873
Land improvements	8,001	7,208
Buildings	456,131	402,361
Equipment and furniture	46,520	40,212
Artwork	4,781	4,347
Library books	5,584	5,491
Construction in progress	4,802	34,489
	538,395	504,981
Less accumulated depreciation	(148,371)	(133,031)
	$ 390,024	$ 371,950

(In Thousands)

Note 9 – Property, Plant, and Equipment, Net (continued)

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

Project	Cost to Date May 31, 2018	Current Year Additions	Placed into Service	Cost to Date May 31, 2019
Myrtle Woldson Performing Arts Center	$ 25,761	$ 22,938	$ (48,699)	$ -
Interdisciplinary Science and Engineering Project	2,704	-	-	2,704
Humanities Building Renovations	5,615	1,016	(6,631)	-
Rowing Boathouse	-	1,214	-	1,214
Robinson Hall Renovations	-	801	-	801
All other projects	409	6,993	(7,319)	83
Total	$ 34,489	$ 32,962	$ (62,649)	$ 4,802

Project	Cost to Date May 31, 2018	Current Year Additions	Placed into Service	Cost to Date May 31, 2019
Volkar Center for Athletic Achievement	$ 11,333	$ 16,198	$ (27,531)	$ -
Foley Center Renovations	1,959	1,372	(3,331)	-
Myrtle Woldson Performing Arts Center	4,980	20,781	-	25,761
Della Strada Jesuit Community	8,098	5,508	(13,606)	-
Interdisciplinary Science and Engineering Project	-	2,704	-	2,704
Humanities Building Renovations	-	5,615	-	5,615
All other projects	4,526	10,315	(14,432)	409
Total	$ 30,896	$ 62,493	$ (58,900)	$ 34,489

Note 10 – Deferred Revenues and Refundable Advances

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue.

	Balance at 5/31/18	Revenue recognized included in 5/31/18 balance	Cash received in advance of performance	Balance at 5/31/19
Tuition	$ 11,200	$ 11,200	$ 11,281	$ 11,281
Refundable Advances	9,153	1,346	3,407	11,214
	$ 20,353	$ 12,546	$ 14,688	$ 22,495

(In Thousands)

Note 10 – Deferred Revenues and Refundable Advances (continued)

The balance of deferred tuition revenue at May 31, 2019, less any refunds issued will be recognized as revenue over the academic term beginning June 1, 2019, as services are rendered.

Refundable advances consist of vendor incentive payments. $8,502 will be recognized as a reduction of operating expenses during the term of the agreement that expires in 2029. $2,712 will be recognized as other sources of revenue during the terms of the agreements that expire starting in 2022 through 2028.

Note 11 – Notes and Bonds Payable

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

	2019	2018
Taxable bonds		
Series 2016 A	$ 108,275	$ 108,275
Series 2016 B	25,625	28,900
Series 2013 B	20,000	20,000
Tax exempt bonds		
Series 2013 A	33,000	33,000
Other notes	460	634
	187,360	190,809
Unamortized net discount	(528)	(552)
Unamortized debt issuance costs	(1,429)	(1,485)
	$ 185,403	$ 188,772

The Series 2016 A taxable bonds have an original issuance of $108,275 and were issued in conjunction with the Series 2016 B bonds in October 2016. 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 2016 B taxable bonds have an original issuance of $35,575 and were issued in conjunction with the Series 2016 A bonds in October 2016 to refund prior outstanding debt. Interest is variable and calculated monthly based on 75 basis points over one-month LIBOR. In the event of a ratings downgrade by Moody's to Baa1 or Fitch to BBB+, the interest rate will increase by 10 basis points. In the event of a subsequent downgrade by Moody's to Baa2 or Fitch to BBB, an additional 10 basis points will be added to the applicable interest rate. Principal matures each year with the final maturity in 2034. The bonds were issued as private placement to two national banks. The bonds are prepayable without penalty and each of the banks commitments mature in 2022 with bank options to extend.

The Series 2013 A tax exempt bonds, issued through the Washington Higher Education Facilities Authority (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 2023.

(In Thousands)

Note 11 – 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.

Other notes are due in various installments through 2093. Interest rates range from 7.00% to 10.00%.

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.

The University has agreed to certain covenants, including covenants to maintain its accredited status, limit its ability to incur additional indebtedness, limit encumbrances on parts of its campus, and maintain certain financial ratios as defined in the related agreements. Covenants associated with maintaining certain financial ratios and other covenants will cease upon the termination of the interest rate swap agreements (see Note 12).

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

Years ending May 31,	Principal
2020	$ 3,972
2021	4,149
2022	4,325
2023	779
2024	800
Thereafter	173,335
	187,360
Unamortized net discount	(528)
Unamortized debt issuance costs	(1,429)
	$ 185,403

The University has committed lines of credit with separate banks. There were no outstanding advances against the lines of credit as of May 31, 2019 and 2018. The lines of credit consist of the following:

Line of Credit	Rate	Term	Security	Available Credit
Revolving operating	One-month LIBOR plus 1.00%; 3.43% as of May 31, 2019	3/1/2020	Parity lien on gross revenue without donor restriction	$ 10,000
Revolving capital	One-month LIBOR plus 1.85%; 4.28% as of May 31, 2019	12/20/2019	Unsecured	5,000

(In Thousands)

Note 12 – Derivative Instruments and Hedging Activities

In connection with previously refunded WHEFA bonds, the University entered into the following interest rate swap agreements (swaps):

Notional Amount as of May 31, 2019	Effective Date	Maturity Date	University Pays	University Receives
$ 22,625	10/1/2014	4/1/2034	4.1195%	67% of one-month LIBOR if 3.50% or greater or 77% of one-month LIBOR if less than 3.50%
3,000	10/1/2012	4/1/2022	4.1680%	70% of one-month LIBOR

In prior years, the University used variable-rate debt to finance the construction and acquisition of property, plant, and equipment. The University entered into swaps in order to obtain a synthetic fixed rate and to hedge the risk of changes in interest payments on the bonds caused by changes in the market rates. The swaps are secured on a parity basis with taxable and tax-exempt bonds. The above swaps can be terminated by the University at market rates at any time during the term of the respective swap.

The swap transactions involve both credit and market risk. The notional amounts do not represent direct credit exposure. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid. If the University's bond rating falls below BBB+ by S&P or Baa1 by Moody's, the swap counterparty can require the University to post collateral equal to the liability for the University's obligation under the swaps.

The swaps were issued at market terms so they had no fair value at inception. The carrying amount of the swaps has been adjusted to the fair value at the end of the fiscal year. The obligation under interest rate swaps was $3,956 and $3,592 as of May 31, 2019 and 2018, respectively.

Net realized losses associated with the swaps were $670 and $953 for the years ended May 31, 2019 and 2018, respectively, and characterized as interest expense on the accompanying consolidated statements of activities. The unrealized changes in value associated with the swaps were ($364) and $1,809 for the years ended May 31, 2019 and 2018, respectively.

(In Thousands)

Note 13 – Net Assets

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

	2019	2018
Without donor restrictions		
Available for operations	$ 49,203	$ 16,176
Invested in property, plant, and equipment	192,441	166,472
Board-designated quasi-endowment for financial aid	27,524	25,744
Board-designated quasi-endowment for program support	7,546	7,634
Board-designated quasi-endowment for general support	26,770	23,332
Board-designated for investment in property, plant, and equipment	307	8,234
Total without donor restrictions	$ 303,791	$ 247,592
With donor restrictions for time or purpose		
Unappropriated donor-restricted endowment earnings	$ 82,826	$ 79,892
Board-designated quasi-endowment for Foundation	1,700	1,721
Property, plant, and equipment	5,656	51,361
Financial aid	4,600	3,489
Program support	23,671	20,558
Academic chairs	2,119	1,751
Split-interest agreements	4,030	2,591
Student loan program	11	241
Total with donor restrictions for time or purpose	$ 124,613	$ 161,604
With donor restrictions in perpetuity		
Financial aid	$ 114,587	$ 111,294
Program support	20,720	17,979
Academic chairs	15,120	15,064
Split-interest agreements	6,420	6,453
Student loan program	3,192	954
Total with donor restrictions in perpetuity	$ 160,039	$ 151,744

(In Thousands)

Note 14 – Financial Assets and Liquidity Resources

The following table reflects the University's financial assets as of May 31, 2019, 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, 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.

	2019
Financial assets	
Cash and cash equivalents	$ 59,674
Short-term investments	14,747
Accounts and interest receivable, net	12,335
Contributions receivable, net	37,086
Student loans receivable, net	13,118
Long-term investments	309,292
Beneficial interest in split-interest agreements held by others	9,164
Financial assets at May 31	455,416
Less financial assets unavailable for general expenditure within one year:	
Accounts receivable beyond one year	1,802
Contributions receivable collectible beyond one year	27,967
Student loan receivable restricted for financial aid purposes	13,118
Other assets with donor or board restrictions for construction	1,775
Endowment assets, net of appropriation for next fiscal year	292,382
Non-endowment investments beyond one year	8,135
Assets held by others	9,164
Financial assets unavailable for general expenditure within one year	354,343
Financial assets available to meet cash needs for general expenditure within one year	$ 101,073

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 statements of cash flows, which identified the sources and uses of the University's cash generated by operating activities for the year ending May 31, 2019.

(In Thousands)

Note 14 – Financial Assets and Liquidity Resources (continued)

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has $15,000 in committed lines of credit. There were no outstanding advances against the lines of credit as of May 31, 2019. Additionally, the University has $61,840 in board-designated endowment and $307 in board-designated for property, plant, and equipment. These funds remain available and may be spent at the discretion of the board; however, no liquidation is anticipated. The University maintains sufficient liquidity within the endowment to cover board-designated amounts, funding commitments, and appropriations for spending distributions. Outstanding funding commitments are $3,739 and may be called by the investment manager at any time (see Note 8).

Note 15 – Expenses by Natural and Functional Classification

The University's primary program activity is academic instruction and support. Facilities operation and maintenance, interest, and depreciation 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, 2019, 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	$ 83,431	$ 29,220	$ 16,742	$ 3,242	$ 9,526	$ 142,161
Professional fees & contracted services	9,933	11,888	2,924	165	462	25,372
Depreciation	5,848	9,627	1,937	247	87	17,746
Occupancy, utilities, and maintenance	2,882	2,037	1,597	87	7,314	13,917
Meetings, travel, and memberships	3,533	7,512	1,944	595	51	13,635
Materials, supplies, printing, & postage	5,760	2,942	1,359	339	2,266	12,666
Interest	1,166	5,653	915	113	153	8,000
Other expenses	367	3,073	1,098	38	59	4,635
	112,920	71,952	28,516	4,826	19,918	238,132
Facilities operation and maintenance	6,055	10,300	3,259	304	(19,918)	-
Total expenses	$ 118,975	$ 82,252	$ 31,775	$ 5,130	$ -	$ 238,132

Note 16 – 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 $7,428 and $7,268 for the years ended May 31, 2019 and 2018, respectively.

(In Thousands)

Note 16 – Retirement Plans (continued)

The University also 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 $3,115 and $3,206 as of May 31, 2019 and 2018, 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.

Note 17 – Related Parties

Contributions receivable and contributions revenue includes amounts from members of the board as listed below:

	2019	2018
Contributions receivable, net	$ 21,466	$ 25,045
Contributions revenue	1,041	2,336

The University has bank deposits and a line of credit with a bank whose chairman and CEO is a member of the board.

Note 18 – 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 two or three years at an estimated unexpended cost of $6,545. Of the unexpended balance, the University has remaining commitment balances of $4,667 with certain engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of May 31, 2019, were $1,878.

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. 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, 2020, 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.

Note 18 – Commitments and Contingencies (continued)

Contingencies – 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.

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

502 E Boone Ave, Spokane, WA 99258