GONZAGA
UNIVERSITY

FINANCIAL REPORT 2019-20

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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, 2020 and 2019, 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, 2020 and 2019, 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 24, 2020

ASSETS

	(in thousands) May 31, 2020	(in thousands) May 31, 2019
Cash and cash equivalents	$ 55,734	$ 59,674
Short-term investments	36,052	14,747
Accounts and interest receivable, net	11,012	12,335
Prepaid expenses	4,539	4,677
Contributions receivable, net	35,936	37,086
Student loans receivable, net	10,891	13,118
Deposits with bond trustees	38,249	-
Long-term investments	312,289	309,292
Beneficial interest in split-interest agreements held by others	13,171	9,164
Property, plant, and equipment, net	391,962	390,024
Total assets	$ 909,835	$ 850,117

LIABILITIES AND NET ASSETS

	2020	2019
LIABILITIES		
Accounts and other payables	$ 10,889	$ 11,941
Accrued salaries, taxes, and benefits	22,318	20,536
Line of credit	10,000	-
Interest payable	1,575	1,287
Deferred revenues and refundable advances	21,404	22,495
Split-interest agreement obligations	5,340	5,277
Federal student loan program	8,722	10,779
Obligation under interest rate swaps	-	3,956
Notes and bonds payable	228,236	185,403
Total liabilities	308,484	261,674
NET ASSETS		
Without donor restrictions	303,299	303,791
With donor restrictions		
Time or purpose	131,056	124,613
Perpetuity	166,996	160,039
Total with donor restrictions	298,052	284,652
Total net assets	601,351	588,443
Total liabilities and net assets	$ 909,835	$ 850,117

See accompanying notes.

Gonzaga University
Consolidated Statements of Activities

	(in thousands) Year Ended May 31, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total	Year Ended May 31, 2019 Total
Operating revenues				
Student tuition and fees, net	$ 286,600	$ -	$ 286,600	$ 279,912
Less institutional financial aid	(114,943)	-	(114,943)	(111,163)
	171,657	-	171,657	168,749
Contributions	1,627	16,416	18,043	16,379
Grants and contracts	232	3,679	3,911	915
Return on investments designated for operating activities	1,864	1	1,865	671
Endowment income distributed for operating activities	2,081	8,367	10,448	11,768
Auxiliary enterprises	22,159	-	22,159	28,485
Other sources	13,928	29	13,957	17,474
Net assets released from restrictions	22,998	(22,998)	-	-
Total operating revenues	236,546	5,494	242,040	244,441
Operating expenses				
Salaries, wages, and benefits	146,862	-	146,862	142,161
Professional fees and contracted services	21,618	-	21,618	25,372
Depreciation	18,121	-	18,121	17,746
Occupancy, utilities, and maintenance	14,929	-	14,929	13,917
Materials, supplies, printing, and postage	11,733	-	11,733	12,666
Meetings, travel, and memberships	10,540	-	10,540	13,635
Interest	9,129	-	9,129	8,000
Scholarships and student aid	1,363	-	1,363	-
Other expenses	3,690	-	3,690	4,635
Total operating expenses	237,985	-	237,985	238,132
Increase (decrease) in net assets from operations	(1,439)	5,494	4,055	6,309
Nonoperating activities				
Contributions for acquisition of capital assets, net	-	4,177	4,177	6,408
Contributions to endowment funds, net	-	4,217	4,217	7,694
Gain on disposal of equipment	35	-	35	38
Return on investments	1,513	8,794	10,307	17,901
Endowment income distributed for operating activities	(2,081)	(8,367)	(10,448)	(11,768)
Change in value of interest rate swaps	(408)	-	(408)	(364)
Change in value of split-interest agreements	-	973	973	1,285
Net assets released from restrictions for acquisition of capital assets	2,154	(2,154)	-	-
Transfers	(266)	266	-	-
Total nonoperating activities	947	7,906	8,853	21,194
Increase (decrease) in net assets	(492)	13,400	12,908	27,503
Net assets at beginning of year	303,791	284,652	588,443	560,940
Net assets at end of year	$ 303,299	$ 298,052	$ 601,351	$ 588,443

	(in thousands) Year Ended May 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Student tuition and fees, net	$ 279,912	$ -	$ 279,912
Less institutional financial aid	(111,163)	-	(111,163)
	168,749	-	168,749
Contributions	490	15,889	16,379
Grants and contracts	101	814	915
Return on investments designated for operating activities	674	(3)	671
Endowment income distributed for operating activities	2,292	9,476	11,768
Auxiliary enterprises	28,485	-	28,485
Other sources	17,442	32	17,474
Net assets released from restrictions	21,014	(21,014)	-
Total operating revenues	239,247	5,194	244,441
Operating expenses			
Salaries, wages, and benefits	142,161	-	142,161
Professional fees and contracted services	25,372	-	25,372
Depreciation	17,746	-	17,746
Occupancy, utilities, and maintenance	13,917	-	13,917
Meetings, travel, and memberships	13,635	-	13,635
Materials, supplies, printing, and postage	12,666	-	12,666
Interest	8,000	-	8,000
Other expenses	4,635	-	4,635
Total operating expenses	238,132	-	238,132
Increase in net assets from operations	1,115	5,194	6,309
Nonoperating activities			
Contributions for acquisition of capital assets, net	-	6,408	6,408
Contributions to endowment funds, net	-	7,694	7,694
Gain on disposal of equipment	38	-	38
Return on investments	5,319	12,582	17,901
Endowment income distributed for operating activities	(2,292)	(9,476)	(11,768)
Change in value of interest rate swaps	(364)	-	(364)
Change in value of split-interest agreements	-	1,285	1,285
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
Increase (decrease) in net assets	56,199	(28,696)	27,503
Net assets at beginning of year	247,592	313,348	560,940
Net assets at end of year	$ 303,791	$ 284,652	$ 588,443

 See accompanying notes.

Gonzaga University
Consolidated Statements of Cash Flows

	(in thousands) Years Ended May 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 12,908	$ 27,503
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation and amortization	18,250	17,826
Provision for uncollectible receivables	184	1,287
Gain on disposal of equipment	(35)	(38)
Contributions restricted for long-term purposes	(8,394)	(14,102)
Interest and dividends restricted for long-term investment	(5,497)	(5,267)
Net realized and unrealized gain on investments	(5,002)	(11,527)
Change in value of interest rate swaps	408	364
Change in value of split-interest agreements	(973)	(1,285)
Other change in assets and liabilities, net	(5,422)	(12,526)
Net cash from operating activities	6,427	2,235
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(17,144)	(31,988)
Proceeds from sale of property and equipment	49	39
Proceeds from sale of investments	119,998	70,241
Purchase of investments	(152,056)	(23,195)
Issuance of student loans receivable	(147)	(54)
Repayment of student loans receivable	2,326	2,377
Net cash from investing activities	(46,974)	17,420
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	8,940	10,798
Proceeds from contributions for split-interest agreements	1,260	400
Proceeds from draw on line of credit	10,000	-
Proceeds from issuance of bonds deposited with bond trustees	73,636	-
Payments for bond issuance costs	(783)	-
Payments on notes and bonds	(30,213)	(3,449)
Payment for interest rate swap termination	(4,364)	-
Payments on split-interest agreements	(244)	(251)
Interest and dividends restricted for long-term investment	5,497	5,267
Net change in student loan liability	(2,057)	96
Net cash from financing activities	61,672	12,861
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	21,125	32,516
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, beginning of year	59,674	27,158
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, end of year	$ 80,799	$ 59,674
SUPPLEMENTAL DISCLOSURES		
Interest paid (includes capitalized interest of $190 and $1,121 for 2020 and 2019, respectively)	$ 8,902	$ 9,057
Noncash acquisition of property, plant, and equipment	2,599	3,026
Noncash gifts of investments and property, plant, and equipment	330	1,270
Cash and cash equivalents	$ 55,734	$ 59,674
Deposits with bond trustees	25,065	-
Total cash, cash equivalents, and restricted cash equivalents	$ 80,799	$ 59,674

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, 2020			
	Corporation	All Other Entities	Inter-Entity Elimination	Consolidated Total
Assets	$ 908,520	$ 93,396	$ (92,081)	$ 909,835
Liabilities	$ 332,150	$ 5,115	$ (28,781)	$ 308,484
NET ASSETS				
Without donor restrictions	303,109	65,498	(65,308)	303,299
With donor restrictions				
Time or purpose	116,800	12,248	2,008	131,056
Perpetual	156,461	10,535	-	166,996
Total net assets	576,370	88,281	(63,300)	601,351
Total liabilities and net assets	$ 908,520	$ 93,396	$ (92,081)	$ 909,835

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 $2,674 and $1,468 as of May 31, 2020 and 2019, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 $3,366 and $3,645 as of May 31, 2020 and 2019, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,641 and $1,770 as of May 31, 2020 and 2019, respectively.

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

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

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

(In Thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

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	20 – 40 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.

Revenue recognition – Student tuition, fees, and room and board are recognized in the period the services are provided. Institutional scholarships awarded to students reduce the amount of revenue recognized. Students who adjust their course load or withdraw completely within the first four weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. In April 2020, the University issued refunds to students for housing and dining of $6,477 and net tuition and fees of $634 as a result of closing the majority of on campus operations in response to the novel coronavirus (COVID-19) pandemic. 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.

In response to the COVID-19 pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The University recognized $2,726 in grant revenue as a result of the CARES Act, of which half was used to award COVID-19 relief to students and is included in scholarships and student aid and half was used to offset refunds of housing and dining charges.

Note 2 – Summary of Significant Accounting Policies (continued)

Advertising – Costs expensed for the years ended May 31, 2020 and 2019, were $2,318 and $2,637, 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, 2020 and 2019, 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.

New accounting pronouncements – In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash and cash equivalents be included in the total cash and cash equivalent at the beginning and end of the period for which changes are shown in the statement of cash flows. The University has implemented ASU for the fiscal year beginning June 1, 2019, with retrospective application. See Note 6 for additional disclosures relating to restricted cash.

(In Thousands)

Note 2 – Summary of Significant Accounting Policies (continued)

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. This standard was expected to be implemented in the current fiscal year until FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) *and Leases* (Topic 842): *Effective Dates for certain Entities*. This update deferred the effective date for one year for public not for profit entities that have not yet issued their financial statements. As such, management will continue to evaluate the effect of the *Leases* (Topic 842) on the University's financial statements, as *Revenue from Contracts with Customers* (Topic 606) was implemented in the prior year.

Subsequent events – The University has evaluated subsequent events through August 24, 2020, 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:

	2020	2019
Government grants and loan funds	$ 5,990	$ 7,090
Student receivables	1,154	926
Miscellaneous receivables	3,712	4,164
Accrued interest receivable	256	255
	11,112	12,435
Less allowance for doubtful accounts	(100)	(100)
	$ 11,012	$ 12,335

(In Thousands)

Note 4 – Contributions Receivable, Net

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

	2020	2019
In one year or less	$ 12,641	$ 11,257
Between one year and five years	21,916	25,090
More than five years	12,507	12,916
Less present value discounts	(9,725)	(10,597)
	37,339	38,666
Less allowance for doubtful accounts	(1,403)	(1,580)
	$ 35,936	$ 37,086

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

	2020	2019
With donor restrictions for financial aid and program support	$ 10,710	$ 10,030
With donor restrictions for property, plant, and equipment	21,541	22,355
With donor restrictions for endowment financial aid and chairs	3,685	4,701
	$ 35,936	$ 37,086

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:

	2020	2019
Federal government programs	$ 9,748	$ 11,948
Institutional programs	1,345	1,423
	11,093	13,371
Less allowance for doubtful accounts	(202)	(253)
Student loans receivable, net	$ 10,891	$ 13,118

(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 $8,722 and $10,779 at May 31, 2020 and 2019, 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 8 years.

At May 31, 2020 and 2019, 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
2020	$ 5	$ 2	$ 2	$ 5	$ 147	$ 560	$ 721
2019	$ 5	$ -	$ -	$ 23	$ 195	$ 496	$ 719

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

Note 6 – Deposits with Bond Trustees

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

	2020	2019
Restricted cash equivalents	$ 25,065	$ -
Investments	13,184	-
Total deposits with bond trustees	$ 38,249	$ -

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

(In Thousands)

Note 7 – Investments

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

	2020	2019
Fixed income securities	$ 36,052	$ 14,747

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, 2020.

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

	2020	2019
U.S. government and agency obligations	$ 13,184	$ -

Deposits with bond trustees consist of bond funds held in investments, as described in Note 6.

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

	2020	2019
Cash and cash equivalents	$ 1,376	$ 2,383
Equity securities	110,977	110,278
Fixed income securities	39,581	34,278
Alternative investments	83,915	82,083
Direct real property investments	63,768	68,418
Split-interest agreements	11,936	11,109
Other	736	743
	$ 312,289	$ 309,292

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. As described in Note 1, the Seattle properties are held in separate single member LLCs, consisting of two parking garages and one surface parking lot, a portion of which is subject to a ground lease.

Note 7 – Investments (continued)

The University entered into a ground lease agreement in 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.

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

The total lease income recognized on the development ground lease for the years ended May 31, 2020 and 2019, were $863 and $180, respectively, and are recorded as return on investments in the consolidated statements of activities. Fixed and probable lease payments for the development ground lease expected to be received on an annual basis in each of the next five years ranges from $918 to $1,754, subject to the conditions noted above.

The University also has lease agreements with an unrelated third-party parking company to operate two parking garages, and the portion of the surface parking lot that is not part of the development ground lease. One lease is month to month, and the second lease expires in 2022 and can be terminated at any time with notice. The total lease income recognized by the University on these agreements for the years ended May 31, 2020 and 2019, were $1,172 and $1,942, respectively, and are recorded as return on investments in the consolidated statements of activities.

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

(In Thousands)

Note 7 – Investments (continued)

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

	2020	2019
Managed diversified global multi-asset fund	$ 58,682	$ 56,768
Private credit funds	8,091	7,405
Private equity funds	9,851	10,368
Real estate funds	5,754	5,450
Diversified fund of funds	1,537	2,092
	$ 83,915	$ 82,083

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

Note 8 – Endowment

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

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

	2020				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Return on Investments, Net of Distributions	Foundation Board-Designated (1)	Total
Board-designated funds	$ 61,372	$ -	$ -	$ 1,705	$ 63,077
Donor-restricted funds	-	165,302	83,718	-	249,020
Underwater funds	-	1,694	(58)	-	1,636
	$ 61,372	$ 166,996	$ 83,660	$ 1,705	$ 313,733

(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 8 – Endowment (continued)

	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.

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

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

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

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

(In Thousands)

Note 8 – Endowment (continued)

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

- 70% based upon the HEPI applied to the prior year endowment spending amount.
- 30% based upon a rate of 4% to 5% of a three-year rolling average of the fund's total market value, measured quarterly.

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

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration. Deficiencies of this nature reported in net assets with donor restrictions were $58 and $407 as of May 31, 2020 and 2019, respectively.

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 61,840	$ 244,565	$ 306,405
Return on investments, net	1,513	9,469	10,982
Contributions	-	4,217	4,217
Amount distributed for operating activities	(2,081)	(8,367)	(10,448)
Transfers	100	2,477	2,577
Net assets, end of year	$ 61,372	$ 252,361	$ 313,733

	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

Note 9 – Fair Value of Financial Instruments

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

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

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

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

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

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 9 – Fair Value of Financial Instruments (continued)

Level 3 assets include:

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

- Direct real property investments are valued based on independent appraisals of two parking garages and one surface lot. The primary unobservable input for each of the parking garages, valued using an income approach, is the income capitalization rate, which was 4.9% for one garage and 3.9% 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 $1,178. A 0.25% increase in the underlying income capitalization rates would decrease the fair value of the two parking garages by approximately $1,053. The primary unobservable inputs for the surface parking lot, using a market approach, are the parameters associated with its future development, including the number of apartment units to be constructed, total developed square footage, and estimations of the revenue per square foot derived from market comparisons. The sensitivity associated with changes in these inputs is not quantified.

- Beneficial interests in the future cash flows of ten 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 0.36% to 6.00%, and applicable life expectancies that range from 3 to 24 years. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately $1,519. A 1.0% increase in each of the underlying discount rates would decrease the fair value by approximately $1,172. 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 9 – Fair Value of Financial Instruments (continued)

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

	May 31, 2020			
	Level 1	Level 2	Level 3	Total
Short-term investments				
Certificates of deposit	$ -	$ 1,027	$ -	$ 1,027
U.S. government and agency obligations	-	3,543	-	3,543
Corporate bonds	-	30,413	-	30,413
Asset-backed obligations	-	1,069	-	1,069
Total short-term investments	-	36,052	-	36,052
Deposits with bond trustees (See note 6)				
U.S. government and agency obligations	-	13,184	-	13,184
Long-term investments				
Cash and cash equivalents	1,376	-	-	1,376
Equity securities				
Mutual funds, index funds, and commingled funds				
Domestic	33,028	-	-	33,028
International	22,972	20,310	-	43,282
Global	1,006	5,203	-	6,209
Direct ownership - public and privately held stock	28,137	12	309	28,458
Fixed income securities				
Mutual funds and index funds				
Domestic	34,926	-	-	34,926
International	4,655	-	-	4,655
Direct real property investments	-	468	63,300	63,768
Assets held under split-interest agreements				
Cash and cash equivalents	1,503	-	-	1,503
Equity mutual funds	6,574	-	-	6,574
Equity-direct ownership	868	-	-	868
Fixed income mutual funds	2,864	-	-	2,864
Fixed income-direct ownership	-	127	-	127
Other	318	418	-	736
Total long-term investments in fair value hierarchy	138,227	26,538	63,609	228,374
Beneficial interest in split-interest agreements held by others	-	-	13,171	13,171
Total assets in fair value hierarchy	$ 138,227	$ 75,774	$ 76,780	$ 290,781
Long-term investments measured at NAV practical expedient(1)				$ 83,915

(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 and related notes.

(In Thousands)

Note 9 – Fair Value of Financial Instruments (continued)

	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 and related notes.

(In Thousands)

Note 9 – Fair Value of Financial Instruments (continued)

Following is a reconciliation of activity for the years ended May 31, 2020 and 2019, 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, 2018	$ 685	$ 54,800	$ 7,686	$ 63,171
Return on investments	(59)	11,480	1,556	12,977
Return of capital	-	(1,480)	(78)	(1,558)
Balance, May 31, 2019	626	64,800	9,164	74,590
Contributions	-	-	3,897	3,897
Return on investments	(317)	(298)	302	(313)
Return of capital	-	(1,202)	(192)	(1,394)
Balance, May 31, 2020	$ 309	$ 63,300	$ 13,171	$ 76,780

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

	Fair Value at May 31, 2020	Unfunded Cash Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period	Investment Strategies and Other Restrictions
Commingled funds (Level 2)	$ 25,513	$ -	(a)	(a)	(a)
Limited partnership investments					
Managed diversified global multi-asset fund	58,682	-	(b)	(b)	(b)
Private credit funds	8,091	13,506	(c)	n/a	(c)
Private equity funds	9,851	6,654	(d)	n/a	(d)
Real estate fund	5,754	-	(e)	(e)	(e)
Diversified fund of funds	1,537	39	(f)	(f)	(f)
Total long-term investments measured at NAV practical expedient	$ 83,915	$ 20,199			

(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 9 – 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, 2020, the value of the liquid portion is $6,923. 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 five private credit funds, including a mezzanine debt fund, two special opportunities funds, an upper-middle market direct lending fund, and a European direct fund. Each fund has the objective to invest in debt and debt-like preferred securities of companies, primarily to generate interest income, within the mandate of the respective fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. Distributions are received through the liquidation of the underlying assets of the funds. It is estimated the underlying assets of these funds will be liquidated between 2020 and 2026.

(d) This category includes four private equity funds that invest in privately held entities with potential for significant growth in revenue and earnings, including one impact fund focused on investments that have a positive societal (i.e. social and/or environmental) impact. 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 2020 and 2030.

(In Thousands)

Note 9 – 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 one private equity fund with underlying investments in direct private equity and private equity funds. Each fund has the objective to generate capital appreciation at a rate in excess of that historically generated by investments in publicly traded equity securities. The funds can only be redeemed through the liquidation of underlying assets, and as underlying assets are liquidated, distributions are received. It is estimated that the underlying assets of the illiquid funds will be liquidated between 2020 and 2024.

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 10 – Property, Plant, and Equipment, Net

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

	2020	2019
Land	$ 12,807	$ 12,576
Land improvements	8,294	8,001
Buildings	466,547	456,131
Equipment and furniture	46,670	46,520
Artwork	4,976	4,781
Library books	5,659	5,584
Construction in progress	11,918	4,802
	556,871	538,395
Less accumulated depreciation	(164,909)	(148,371)
	$ 391,962	$ 390,024

(In Thousands)

Note 10 – 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, 2019	Current Year Additions	Placed into Service	Cost to Date May 31, 2020
Integrated Science and Engineering Building	$ 2,704	$ 7,496	$ -	$ 10,200
Zag Relationship Management Software	-	816	(52)	764
Rowing Boathouse	1,214	774	(1,988)	-
Robinson Hall renovations	801	8	(809)	-
Cincinnati Street improvements	60	682	-	742
All other projects	23	6,879	(6,690)	212
Total	$ 4,802	$ 16,655	$ (9,539)	$ 11,918

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)	$ -
Integrated Science and Engineering Building	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

Note 11 – Lines of Credit

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

Line of Credit	Total Available Credit	Rate	Term	Security	Balance at May 31, 2020	Balance at May 31, 2019
Revolving operating	$ 10,000	Prime minus 1.9375%; 1.3125% as of May 31, 2020	3/1/2021	Parity lien on gross revenue without donor restriction	$ 10,000	$ -
Revolving capital	5,000	One-month LIBOR plus 1.85%; 2.03% as of May 31, 2020	12/20/2020	Unsecured	-	-

(In Thousands)

Note 12 – 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 5/31/19	Revenue Recognized Included in 5/31/19 Balance	Cash Received in Advance of Performance	Balance at 5/31/20
Tuition	$ 11,281	$ 11,281	$ 11,516	$ 11,516
Refundable Advances	11,214	1,353	27	9,888
	$ 22,495	$ 12,634	$ 11,543	$ 21,404

	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

The balance of deferred tuition revenue at May 31, 2020, less any refunds issued will be recognized as revenue over the academic term beginning June 1, 2020, as services are rendered.

Refundable advances consist of vendor incentive payments. The balance of refundable advances at May 31, 2020, was $9,888, of which $7,583 will be recognized as a reduction of operating expenses over the term of the agreement that expires in 2029 and $2,305 will be recognized as other sources of revenue during the terms of the agreements that expire starting in 2022 through 2028.

(In Thousands)

Note 13 – Notes and Bonds Payable

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

	2020	2019
Taxable bonds		
Series 2019 B	$ 25,755	$ -
Series 2016 A	108,275	108,275
Series 2016 B	-	25,625
Series 2013 B	20,000	20,000
Tax exempt bonds		
Series 2019 A	44,685	-
Series 2013 A	33,000	33,000
Other notes	496	460
	232,211	187,360
Unamortized net discount	(1,842)	(528)
Unamortized debt issuance costs	(2,133)	(1,429)
	$ 228,236	$ 185,403

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

The Series 2019 B taxable bonds, issued through WHEFA, have an original issuance of $30,315 and were issued in conjunction with the Series 2019 A bonds in October 2019 to refund the Series 2016 B bonds and terminate the existing interest rate swaps (see Note 14). Interest rates are fixed and range from 1.896% to 2.889%. Principal payments began in 2020 with final maturity in 2034 and the bonds have an optional make-whole call.

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

The Series 2013 A tax exempt bonds, issued through WHEFA, have an original issuance of $33,000 and were issued in conjunction with the Series 2013 B bonds. The interest rate is fixed at 5.25%. Principal payments begin in 2041 with final maturity in 2043 and the bonds are callable at par in 2023.

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

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

(In Thousands)

Note 13 – Notes and Bonds Payable (continued)

Other notes are due in various installments through 2093. Interest rates range from 4.00% to 10.00%.

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

Years ending May 31,	Principal
2021	$ 4,591
2022	2,037
2023	2,017
2024	2,013
2025	1,528
Thereafter	220,025
	232,211
Unamortized net discount	(1,842)
Unamortized debt issuance costs	(2,133)
	$ 228,236

Note 14 – Derivative Instruments and Hedging Activities

The University used variable-rate debt to finance the construction and acquisition of property, plant, and equipment. The University entered into interest rate swap agreements (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. Under the interest rate swaps, the University received variable interest rate payments and made fixed interest rate payments. The swaps were secured on a parity basis with taxable and tax-exempt bonds.

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 as of May 31, 2019. The swaps were terminated by the University in October 2019 at the market rate of $4,364.

Net realized losses associated with the swaps were $206 and $670 for the years ended May 31, 2020 and 2019, respectively, and characterized as interest expense on the accompanying consolidated statements of activities. The unrealized changes in value associated with the swaps were ($408) and ($364) for the years ended May 31, 2020 and 2019, respectively.

(In Thousands)

Note 15 – Net Assets

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

	2020	2019
Without donor restrictions		
Available for operations	$ 47,673	$ 49,203
Property, plant, and equipment	194,077	192,441
Board-designated quasi-endowment for financial aid	27,734	27,524
Board-designated quasi-endowment for general support	26,069	26,770
Board-designated quasi-endowment for program support	7,569	7,546
Board-designated for investment in property, plant, and equipment	177	307
Total without donor restrictions	$ 303,299	$ 303,791
With donor restrictions for time or purpose		
Unappropriated donor-restricted endowment earnings	$ 83,660	$ 82,826
Property, plant, and equipment	7,721	5,656
Board-designated quasi-endowment for Foundation	1,705	1,700
Financial aid	4,981	4,600
Program support	26,903	23,671
Academic chairs	2,264	2,119
Life income funds	3,355	3,622
Annuities	456	408
Student loan program	11	11
Total with donor restrictions for time or purpose	$ 131,056	$ 124,613
With donor restrictions in perpetuity		
Financial aid	$ 118,949	$ 114,587
Program support	20,754	20,720
Academic chairs	15,145	15,120
Split-interest agreements	8,953	6,420
Student loan program	3,195	3,192
Total with donor restrictions in perpetuity	$ 166,996	$ 160,039

(In Thousands)

Note 16 – Financial Assets and Liquidity Resources

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

	2020	2019
Financial assets		
Cash and cash equivalents	$ 55,734	$ 59,674
Short-term investments	36,052	14,747
Accounts and interest receivable, net	11,012	12,335
Contributions receivable, net	35,936	37,086
Student loans receivable, net	10,891	13,118
Deposits with bond trustees	38,249	-
Long-term investments	312,289	309,292
Beneficial interest in split-interest agreements held by others	13,171	9,164
Financial assets at May 31	513,334	455,416
Less financial assets unavailable for general expenditure within one year:		
Accounts receivable beyond one year	1,955	1,802
Contributions receivable collectible beyond one year	24,524	27,967
Student loan receivable restricted for financial aid purposes	10,891	13,118
Deposits with bond trustees restricted for construction	38,249	-
Other assets with donor or board restrictions for construction	5,471	1,775
Endowment assets, net of appropriation for next fiscal year	298,466	292,382
Non-endowment investments beyond one year	4,772	8,135
Assets held by others	13,171	9,164
Financial assets unavailable for general expenditure within one year	397,499	354,343
Financial assets available to meet cash needs for general expenditure within one year	$ 115,835	$ 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 years ended May 31, 2020 and 2019.

(In Thousands)

Note 16 – Financial Assets and Liquidity Resources (continued)

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has $15,000 in committed lines of credit. The outstanding advances against the lines of credit for the years ended May 31, 2020 and 2019, were $10,000 and $0, respectively. Additionally, the University has $61,372 in board-designated endowment and $177 in board-designated for property, plant, and equipment. These funds remain available and may be spent at the discretion of the board. The University maintains sufficient liquidity within the endowment to cover board-designated amounts, funding commitments, and appropriations for spending distributions. Outstanding funding commitments are $20,199 and may be called by the investment manager at any time (see Note 9).

Note 17 – Expenses by Natural and Functional Classification

The University's primary program activity is academic instruction and support. Facilities operation and maintenance, interest, and depreciation 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, 2020, 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	$ 85,644	$ 31,047	$ 17,226	$ 3,171	$ 9,774	$ 146,862
Professional fees & contracted services	8,014	10,918	2,097	148	441	21,618
Depreciation	5,919	9,832	1,983	223	164	18,121
Occupancy, utilities, and maintenance	3,450	2,296	2,011	64	7,108	14,929
Materials, supplies, printing & postage	5,236	2,698	1,193	278	2,328	11,733
Meetings, travel, and memberships	2,525	6,240	1,367	368	40	10,540
Interest	1,401	6,398	1,045	112	173	9,129
Scholarships and student aid	1,363	-	-	-	-	1,363
Other expenses	573	2,041	1,037	15	24	3,690
	114,125	71,470	27,959	4,379	20,052	237,985
Facilities operation and maintenance	6,550	10,880	2,376	246	(20,052)	-
Total expenses	$ 120,675	$ 82,350	$ 30,335	$ 4,625	$ -	$ 237,985

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
Materials, supplies, printing & postage	5,760	2,942	1,359	339	2,266	12,666
Meetings, travel, and memberships	3,533	7,512	1,944	595	51	13,635
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

(In Thousands)

Note 18 – Retirement Plans

Retirement benefits are provided to all employees (excluding students) working a minimum of 1,000 hours per year under a 403(b) defined contribution plan (Plan). Beginning the first day of the month following one year of service, eligible employees are required to contribute 5% of their salary and the University contributes 8.5%. All contributions vest immediately and are subject to annual IRS limitations. The Plan is administered by TIAA and offers a variety of investment options from TIAA and other funds. The University's expense for the Plan was $7,627 and $7,428 for the years ended May 31, 2020 and 2019, respectively.

The University maintains two 457(b) supplemental deferred compensation plans funded by highly compensated employee pre-tax dollar contributions. The original plan was frozen to new participants on December 31, 2016. The second plan commenced on January 1, 2017. Voluntary employee contributions and accumulated earnings to the 457(b) plans of $3,294 and $3,115 as of May 31, 2020 and 2019, respectively, are included in long-term investments and accrued benefits payable. By IRS regulations, these funds are considered to be assets of the University until distributed to participants.

The University also maintains a 457(f) non-qualified deferred compensation plan funded by the University. The purpose of the plan is to permit certain employees selected by the Board of Trustees to accumulate deferred compensation. The plan covers employees who are among a select group of management or highly compensated employees and contributions vest on January 15, 2024. The University's expense for the plan and accrued salary and benefits payable was $296 and $0 for the years ended May 31, 2020 and 2019. Contributions and accumulated earnings of the 457(f) plan of $229 and $0, as of May 31, 2020 and 2019, respectively, are included in long-term investments. By IRS regulations, these funds are considered to be assets of the University until distributed to the participant.

Note 19 – Related Parties

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

	2020	2019
Contributions receivable	$ 19,613	$ 21,466
Contributions revenue	4,895	1,041

In August 2019, the University received a beneficial interest in a charitable lead annuity trust held by a third party from a member of the board and recorded contribution revenue of $2,477. The trust will pay the University an annual annuity amount equal to 5% of the initial net fair market value of the property transferred to the trust. The value of the charitable lead annuity trust is $2,576 as of May 31, 2020, and is included in beneficial interest in split-interest agreements held by others.

Note 20 – Commitments and Contingencies

Commitments – The University has obtained or has plans to obtain the necessary funding for the acquisition, construction, renovation, and furnishing of certain facilities that will be capitalized in the applicable capital asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects, which are expected to be completed in varying phases over the next one or two years at an estimated unexpended cost of $33,398. Of the unexpended balance, the University has remaining commitment balances of $33,086 with certain engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of May 31, 2020, were $313.

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.

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.

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. The University’s results of operations could be adversely affected to the extent that the coronavirus or any other epidemic harms the economy. The Board of Trustees and the University’s management are monitoring the outbreak and potential financial impact, which are currently uncertain. The duration and intensity of the impact of the coronavirus and resulting disruption to the University’s operations are uncertain and could adversely affect financial results.

Note 21 – Subsequent Events

In July 2020, Gonzaga University and the University of Washington each executed lease agreements for 31,392 square feet and 28,111 square feet, respectively of an 86,733 square foot building to be constructed by a third-party developer adjacent to the University's Spokane campus. This facility will become the new home of the University of Washington School of Medicine – Gonzaga University program, support a relocation of Gonzaga's Department of Human Physiology program, as well as space for expanded health science programs and research. Upon completion, estimated in July 2022, Gonzaga will incur annual lease payments of $138 plus common area charges, subject to annual inflation, for an initial twelve-year period with five extension options to extend the term for a period of five years per option period.

At this same time, Gonzaga entered into a lease with this third-party developer to lease them 243 parking stalls on property adjacent to the proposed new facility. The lease is for a period ending July 2044. The lease is a triple net lease with the developer paying $7 per month in lease payments, with lease rates adjusted annually. Gonzaga retains an option to develop a building on the leased property as long as it provides a minimum of 150 parking stalls to the developer. Gonzaga also retains the ability to use the parking stalls after hours in support of University activities.

Mission Statement

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

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

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

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

Vision Statement

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

GONZAGA
UNIVERSITY
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