# GONZAGA UNIVERSITY FINANCIAL REPORT 2020-21

# Table of Contents


| | PAGE |
|---|---|
| **Letter from the Chief Financial Officer** | 1–8 |
| **Selected Data** | 9 |
| **Report of Independent Auditors** | 10–11 |
| **Consolidated Financial Statements** | |
| Consolidated statements of financial position | 12 |
| Consolidated statements of activities | 13–14 |
| Consolidated statements of cash flows | 15 |
| Notes to consolidated financial statements | 16–47 |

Greetings from Gonzaga University!

As I write this letter, I am struck with a tremendous sense of gratitude to the entire Gonzaga Community – most especially our students, faculty and staff – who have and continue to work through the many twists and turns of COVID-19. As a University administrator, I often join my colleagues in the ever present need to look forward in developing plans and strategies for the year ahead. In fact, much of this summer has been spent doing just that as we plan to welcome all our students back to campus this fall, including a class of over 1,300 Gonzaga freshmen. It is rare to take a moment to reflect and take stock of the past and celebrate our achievements. While it has no doubt been a challenging year, it has also been a remarkable year, filled with stories of adapting and modifying to deliver on our academic mission. With its challenges I am confident that all of our community members grew from this shared experience – whether it is in the way each of us engages with one another, sees more clearly the issues and challenges we face as a society, goes about the day-to-day work using new tools and technology, or cherishes more deeply face-to-face time with family and friends. It has been a time where being part of a mission-driven community – a Gonzaga community – matters.

Among the many decisions made by University leadership over the course of the past year, the most significant involved the mode of academic instruction and supporting residency of our students. Following extensive internal planning and external consultation with state and regional health authorities, the University opened the 2020-21 academic year on a modified basis to support instruction via fully remote and synchronous hybrid course offerings with students attending simultaneously in-person and remote. Certain courses, including labs, were offered exclusively in-person. The University suspended, on a temporary basis, the on-campus residency requirement for freshmen and sophomores, though on-campus housing (dorms, apartments, suites and houses) were open to students choosing to live on campus.

Following the guidance of the State of Washington and regional health authorities, the University implemented health and safety protocols for its students, faculty and staff to mitigate the spread of COVID-19. Gonzaga supported its own daily online health attestation tool and student contact tracing, supplemented by on-site COVID-19 testing and quarantine and isolation facilities. Programs and events were modified to accommodate health and safety protocols, often including the use of video conferencing technology. The academic calendar was modified, removing the traditional spring break week and instead spreading a number of days off across the spring semester. Students returning home for Thanksgiving were asked to remain home until the beginning of spring semester. All NCAA sporting events shifted to the spring semester. Travel was limited to essential trips only, with no students traveling abroad to study at our Gonzaga in Florence campus or other study abroad programs offered by other institutions.

Student headcount for Fall 2020 was 7,295, down 253 students or 3.4% from Fall 2019. The primary drivers of this decrease included a smaller freshmen class of 1,050 students as compared to the prior year freshmen class of 1,247 and the loss of 50 non-Gonzaga students attending Gonzaga in Florence from other universities, offset by strong retention in all other student cohorts, including a 92% freshmen-to-sophomore retention rate, and strong graduate and law enrollments. The University began the academic year with 2,050 students in campus-owned housing. We estimate over 2,000 students, largely upper division undergraduate students, lived near campus.

Over the course of the year, colleagues in Health and Counseling Services, Athletics, and the Nursing Department supported signs/symptoms/exposure testing, surveillance testing, and walk-in testing, in total conducting 26,857 COVID-19 tests with an annual positivity rate of 1.81%. In total, 688 students tested positive for COVID-19 during the academic year, with approximately 59% of positive tests resulting from students living off campus. Approximately 71% of all student cases were detected through University testing. Over the course of the year, 997 on- or off-campus students were affected by either quarantine or isolation, in some cases more than one time. The University served as an early point of distribution for COVID-19 vaccinations, administering over 7,000 vaccinations to Spokane community members.

Amidst these many transitions, the University leadership team adopted the following themes in managing our fiscal response to the COVID-19 pandemic:

- Promote the health and well-being of our students, faculty, and staff;
- Support the education of students through digital modes in a timely and effective manner;
- Support our students, those nearby and far away, in the transition to this changed living and learning environment, guided by our mission values;
- Secure our physical and financial resources;
- Support adaptive enrollment, student retention, and advancement strategies; and
- Maintain fiscal capacity and nimbleness to manage, respond, and recover from the impacts of the pandemic.

The University mitigated various revenue losses and the need to fund COVID-related expenses by reducing discretionary spending, particularly in the area of travel and activities, holding compensation flat for substantially all employees, and driving expense savings through position vacancy management. There were no reductions in force, furloughs, or reductions in employee benefits during fiscal year 2020-21.

There are a number of major achievements to highlight during fiscal 2020-21:

- The University is near completion of the John and Joan Bollier Family Center for Integrated Science and Engineering. The Bollier Center adds more than 82,000 square feet of space dedicated to student learning in the sciences, technology, engineering, and mathematics on Gonzaga's campus, with special focus on providing opportunities for cross-disciplinary collaboration and will open in late fall 2021.

- Work progresses on the University of Washington – Gonzaga University Health Partnership facility adjacent to campus. When opened, the 90,000-square-foot facility will include classrooms, an anatomy suite, research labs and administrative offices to support 120 first and second year University of Washington medical students and more than 500 undergraduate students in the health sciences. The facility is scheduled to open in July 2022.

- The University launched Gonzaga Global, a joint partnership between Gonzaga University and Shorelight Partners designed to support international students wishing to come to Gonzaga throughout the enrollment process and promote personal academic success during their first year on campus.

- The University launched the Center for Climate, Society, and the Environment. The new interdisciplinary academic center will serve Gonzaga students and the region by advancing innovative, interdisciplinary scholarship, teaching, consulting and capacity building to address climate change.

- The University is ranked among the top 100 national universities by U.S. News and World Report in its 2021 ranking (80th overall, top 21%) and ranked 18th in the category for best undergraduate teaching, placing it in the top 5%.

- The University's men's basketball team reached the Final Four and championship game carrying an undefeated record and a number one overall ranking, falling one game short of winning its first national championship.

I am grateful for the ongoing work of our faculty and staff, particularly those leading our University-wide adaptive response to the pandemic. Together, our learning community will continue to adjust to the needs of our students throughout this difficult time, guided by our Jesuit tradition of a transformational education and cura personalis.

Following is a summary related to the financial performance for the fiscal year ended May 31, 2021.

## Consolidated Statement of Financial Position

### Assets

Assets, totaling $1.049 billion as of May 31, 2021, increased $139.3 million or 15.3% 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 $97.8 million as of May 31, 2021, an increase of $6.0 million or 6.5% from the prior fiscal year. The May 31, 2020, balance included $10.0 million resulting from a drawdown on a line of credit that was repaid during fiscal year 2020-21. Adjusted to remove the impact of the line of credit draw, the cash and short-term investment balance increased $16.0 million or 19.5% over the prior fiscal year. These resources provide essential liquidity to cover operating costs, project funds to construct and maintain campus facilities, and capacity to satisfy debt service payments. Additionally, the funds support Strategic Plan initiatives and fund contingencies and reserves. Notable non-recurring cash changes included receipt of $2.7 million for institutional use from the Higher Education Emergency Relief Fund II (HEERF II) used to reimburse the University for lost revenues, a transfer out of $5.5 million of operating funds to be invested as long-term investments, and an increase of $3.2 million in the deferral of employer paid social security taxes that would have otherwise been paid in fiscal year 2020-21, resulting from the University's election to defer payment of such taxes as allowed under the Consolidated Appropriations Act. The remaining changes are the result of cash generated from operations, cash receipts from gifts, changes in investments, capital spending, debt payments, and other activity.

Contributions receivable, net, totaled $37.9 million as of May 31, 2021, an increase of $1.9 million or 5.3% from the prior fiscal year. Of this amount, $34.4 million (undiscounted) is expected to be collected within the next five years. Contributions receivable are principally the result of the Gonzaga Will campaign ending in 2018. During fiscal year 2020-21, $3.0 million of contributions receivable were reserved or written-off due to uncertainty of collectability.

Long-term investments and beneficial interest in split interest agreements held by others totaled $467.1 million, an increase of $141.6 million or 43.5% from the prior fiscal year. Such amounts represent 44.5% of total assets as of May 31, 2021, and are substantially comprised of endowment assets. The net return on the diversified endowment investment pool was 48.2% for the fiscal year, exceeding the University's policy index by 1,970 basis points, driven largely by realized and unrealized returns from private investments. Investment net return together with new endowment gifts of $7.2 million, a transfer of $5.5 million of operating funds to be invested on a long-term basis, and the addition of $13.5 million invested on behalf of an unrelated charitable organization were offset by an annual spending distribution of $11.2 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 (28%), international equities (27%), fixed income (20%), alternative investments (15%) and real assets (10%). The pooled endowment achieved annualized net returns ranking among the top 10% of higher education institutions nationwide for the three-, five-, and ten-year periods ending June 30, 2020 (the most currently available data) [1]. The ten-year annualized net return was 9.5% as of June 30, 2020, or 200 basis points higher than the NTSE average for all participants.

[1] *Source: NACUBO TIAA Study of Endowments® (NTSE), 2020*

Property, plant, and equipment, net, totaled $403.2 million as of May 31, 2021, an increase of $11.2 million or 2.9% 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 increase stems from construction on the Bollier Center of $26.7 million, offset by depreciation expense of $17.9 million. The University incorporates renewal and replacement spending within its annual operating budget in order to maintain a 152 acre main campus of more than 100 buildings.

**Liabilities**

Liabilities totaled $320.2 million as of May 31, 2021, an increase of $11.8 million or 3.8% from the prior fiscal year. The May 31, 2020, balance included a $10.0 million draw on a bank line of credit (described above), which was fully repaid during fiscal year 2020-21. Excluding this amount, liabilities increased $21.8 million or 7.3%. The University adopted a new accounting standard for leases resulting in an increase in liabilities of $3.9 million over the prior fiscal year. Additionally, the University began investing funds on a long-term basis on behalf of an unrelated charitable organization in December 2020, with such amounts representing a liability of $14.8 million as of May 31, 2021.

Accounts and other payables totaled $13.7 million as of May 31, 2021, an increase $2.9 million or 26.2% from the prior fiscal year, largely driven by an increase in construction-related payables of $2.5 million as compared to the prior fiscal year. Accrued salaries, taxes and benefits totaled $27.7 million as of May 31, 2021, an increase of $5.4 million over the prior fiscal year. This increase includes $3.2 million of deferred employer social security taxes (discussed above).

In addition to shorter-term obligations to vendors, creditors, and employees, along with deferred revenues and refundable advances, the most significant liabilities are notes and bonds payable. Notes and bonds payable are largely used to finance the construction and acquisition of property, plant, and equipment. As of May 31, 2021, notes and bonds payable decreased $4.9 million or 2.1% from the prior fiscal year due to the repayment of principal on the Series 2019 B bonds. All bonds payable are 100% fixed rate instruments, which provides a high degree of certainty as to the annual debt service payments given that such rates are not subject to variability. Together, the overall debt portfolio represents a 4.18% weighted average cost of borrowed funds. Gonzaga's currently scheduled annual total debt service from fiscal year 2021-22 through fiscal year 2033-34 remains largely flat, ranging between $10.3 million and $11.3 million per fiscal year. Selected bonds are rated by Moody's Investor Service and Fitch Ratings, and carry an "A2" (outlook stable) and "A+" (outlook stable), respectively.

**Net Assets**

Net assets were $728.9 million as of May 31, 2021, an increase of $127.6 million or 21.2% from the prior fiscal year. The three primary drivers of annual changes in net assets are 1) the net change from operating activities; 2) net investment return of the endowment and other long-term investments, after the annual spending distribution; and 3) contributions towards non-operating activities, such as capital and endowment contributions.

Net assets without donor restrictions totaled $325.5 million as of May 31, 2021, an increase of $22.2 million or 7.3% from the prior year. The increase is due to income from operating activities of $3.5 million and net gains from non-operating activities of $18.7 million resulting principally from a net return on investments of $17.7 million, net of amounts distributed for operating activities.

Net assets with donor restrictions for time or purpose totaled $226.9 million as of May 31, 2021, an increase of $95.9 million or 73.1% from the prior year. The increase was due primarily to net investment return of $97.8 million, grants of $5.5 million and contributions of $20.2 million, offset by the release of restrictions of $28.4 million, among other changes.

Net assets with donor restrictions in perpetuity totaled $176.6 million as of May 31, 2021, an increase of $9.6 million or 5.7% from the prior fiscal year. The increase was due largely to new contributions to the endowment fund of $7.2 million.

### Consolidated Statement of Activities

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

**Operating Activities**

For the year ended May 31, 2021, total operating activities resulted in a $5.7 million increase in net assets, compared with a $4.1 million increase in the prior fiscal year. For the years ended May 31, 2021 and 2020, the operating margin (calculated as increase in net assets from operations divided by total operating revenues) was 2.5% and 1.7%, respectively, and the operating cash flow margin (calculated as the sum of increase in net assets from operations, depreciation, amortization, and interest paid divided by total operating revenues) was 14.6% and 12.8%, respectively.

For the year ended May 31, 2021, total operating revenues decreased $13.5 million or 5.6% from the prior fiscal year. The most significant component of operating revenues is student tuition and fees, net of institutional financial aid, which decreased $12.3 million or 7.1% from the prior fiscal year. The change is driven by a decrease in undergraduate net tuition revenue (excluding Gonzaga in Florence) of $1.1 million, the net result of a 4.0% tuition rate increase, a decrease in undergraduate enrollment (fall) of 83 students, stable retention rates, and a slightly higher tuition discount rate for the freshmen class. The Fall 2020 freshmen class was 1,050 students, down 197 students from the prior year freshmen cohort, largely driven by the uncertainty associated with COVID-19. Net tuition revenue was negatively impacted by the loss of all revenues from Gonzaga in Florence due to the suspension of international travel for the entire fiscal year due to COVID-19. Gonzaga in Florence gross tuition revenue (prior to financial aid) was $9.5 million in the prior fiscal year. Graduate revenues, including law, increased by $1.1 million due largely to an increase in overall credit generation of 1.4% and changes in tuition per graduate credit that vary by program. Various program and activity fees were not assessed in fiscal year 2020-21 in light of COVID-19, most notably, a mandatory fitness center fee that typically represents $1.0 million per year.

Three other categories of operating revenues were impacted by COVID-19; auxiliary enterprises, other sources, and grants and contracts. Revenues from auxiliary enterprises, principally comprised of housing and dining revenue, decreased $0.9 million or 3.9% from the prior year. Revenue from auxiliary enterprises in fiscal year 2019-20 was also negatively impacted by COVID-19 due to refunds of housing and dining charges for the second half of spring semester 2020 of $6.5 million. As such, a comparison of fiscal year 2020-21 to fiscal year 2019-20, adding back the housing and dining refunds, results in a decrease in auxiliary revenues of $7.4 million or 25.7%. The University suspended, on a temporary basis, the on-campus residency requirement for freshmen and sophomores during fiscal year 2020-21. The University began the academic year with 2,050 students in campus-owned housing, with an occupancy rate of 66% as compared to a traditional year of approximately 95% occupancy. Spring semester occupancy improved to 70%. Auxiliary revenues were also negatively impacted in fiscal year 2020-21 by $1.4 million due to the refunding of approximately three weeks of fall semester housing and dining revenues for any on-campus students choosing to return home for Thanksgiving.

Revenue from other sources decreased $3.0 million or 21.2% from the prior year, which are largely derived from athletics, rentals, commissions, royalties, rebates, parking, and other sales and services. Revenue from other sources in fiscal year 2019-20 was also negatively impacted by COVID-19 due to the loss of $3.5 million in revenues, of which $2.4 million was attributable to the cancellation of the NCAA post-season tournament play for men’s and women’s basketball. As such, a comparison of fiscal year 2020-21 to fiscal year 2019-20, adding back lost revenues in fiscal year 2019-20, results in a decrease in revenues from other sources of $6.5 million or 37%. The primary drivers of this variance include the loss of substantially all rental revenues from conferences, camps and other on-campus events, and loss of all season ticket revenue for men’s and women’s basketball.

Grants and contracts revenue increased $1.6 million or 40.2% over the prior fiscal year. In fiscal year 2020-21, the University received $4.1 million of federal stimulus funds under HEERF II, of which $2.7 million was used to offset lost revenues and $1.4 million was used to award COVID-19 relief directly to eligible students. In fiscal year 2019-20, the University received $2.7 million of federal stimulus under HEERF I, of which 50% was used to offset lost revenues and 50% was used to award COVID-19 relief directly to eligible students. Accordingly, $4.1 million and $2.7 million was released from restrictions in fiscal years 2020-21 and 2019-20, respectively. In January 2021 the University was allocated $8.8 million of federal stimulus funds under HEERF III, of which 50% can be used for institutional purposes and 50% is to be awarded as COVID-19 relief directly to eligible students; however, such amounts were not drawn down from the U.S. Department of Education during fiscal year 2020-21 and therefore no amounts have been reflected in the accompanying consolidated financial statements.

While operating revenues come largely from student tuition and fees and associated auxiliary revenues, contributions and endowment distributions are important revenue diversifiers that help offset the cost of a Gonzaga education for all students, particularly to support institutional financial aid. Total contributions to support operations decreased $0.5 million or 2.6% over the prior year. Endowment distributions for 2020-21 were not impacted by COVID-19, with an increase in endowment spending of $0.8 million or 7.6% driven by investment growth, new gifts and inflation, all of which serve as inputs to the annual endowment spending calculation.

For the year ended May 31, 2021, total operating expenses decreased $15.1 million or 6.3% from the prior fiscal year. Many expense categories saw decreases in the current fiscal year when compared to the prior year, most notably professional fees and contracted services (decreased $4.6 million or 21.5%, due largely to reduced food service on campus and reduced study abroad payments to third-party providers); meetings, travel, and memberships (decreased $5.4 million or 51.0%, due largely to reduced travel expenditures for the entire fiscal year); and materials, supplies, printing and postage (decreased $3.4 million or 28.6%, due largely to a reduction of supplies needs in office and learning environments). Salaries, wages, and benefits—the largest category of expense—remained flat, due to minimal amounts of compensation increases across all employees, expense savings from position vacancy management, offset by the addition of new employees to support COVID-19 management and other initiatives and increases in benefit costs due to inflation and utilization. There were no reductions in force, furloughs, or reductions in employee benefits during fiscal year 2020-21. During fiscal year 2020-21, the University incurred $6.3 million of direct and incremental expenses related to COVID-19, with such activities and amounts included in the following categories:

| Amount (in millions | Nature of Activity | Line item on the Consolidated Statement of Activities |
|---|---|---|
| $0.4 | Personnel to support contact tracing and other direct COVID-19 support | Salaries, wages, and benefits |
| $2.6 | COVID-19 testing | Professional fees and contracted services |
| $1.3 | Facilities rentals for isolation and quarantine and facility reconfiguration | Occupancy, utilities, and maintenance |
| $1.8 | Technology, personal protective equipment, signage, and cleaning supplies | Materials, supplies, printing, and postage |
| $0.2 | Other | Various |

Certain of the costs noted above are eligible for reimbursement from the Federal Emergency Management Agency (FEMA) and the University is actively pursuing reimbursement. As of May 31, 2021, the University has not applied for or received reimbursement and as such no amounts are recorded in fiscal year 2020-21.

**Non-Operating Activities**

In addition to operations, Gonzaga reports other changes in net assets from those activities that are not directly attributable to its annual operations. Return on investments, net of endowment income distributed for operating activities was $106.3 million for the year ended May 31, 2021, a substantial increase from the prior fiscal year net loss of $0.1 million. Contributions for the acquisition of capital assets, net, and contributions for endowment funds, net, were $12.5 million for the year ended May 31, 2021, an increase of $4.1 million compared to the prior fiscal year.

## Closing

It is a fascinating time to be a Gonzaga student and while the year ahead will continue to present unique challenges, our students should expect to deeply engage in their academic pursuits, faith fulfillment, classical perspectives as well as contemporary issues—an education that intentionally develops the whole person for lives of leadership and service for the common good.

I wish to close with gratitude to our Gonzaga community—its students, staff, faculty, administration, board, alumni, benefactors, fans, business partners and all those that make what we do possible—and I pray that we all approach these uncertain times with renewed and sustained hope, courage, compassion, and empathy.

Faithfully,

Joe

Joe Smith, CPA, CGMA
Chief Financial Officer

August 2021

Selected Data (in thousands) (unaudited)

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

| As of May 31 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Consolidated Statement of Financial Position Data** | | | | | |
| Cash, cash equivalents, and short-term investments | $ 97,772 | $ 91,786 | $ 74,421 | $ 88,650 | $ 128,749 |
| Contributions receivable, net | 37,856 | 35,936 | 37,086 | 32,020 | 31,520 |
| Long-term investments [1] | 467,059 | 325,460 | 318,456 | 305,548 | 294,781 |
| Property, plant, and equipment, net | 403,187 | 391,962 | 390,024 | 371,950 | 318,679 |
| Total assets | 1,049,183 | 909,835 | 850,117 | 827,088 | 802,600 |
| Notes and bonds payable | 223,349 | 228,236 | 185,403 | 188,772 | 192,061 |
| Total liabilities | 320,236 | 308,484 | 261,674 | 266,148 | 271,961 |
| Net assets without donor restrictions | $ 325,460 | $ 303,299 | $ 303,791 | $ 247,592 | $ 212,454 |
| Net assets with donor restrictions for time or purpose | 226,910 | 131,056 | 124,613 | 161,604 | 173,605 |
| Net assets with donor restrictions in perpetuity | 176,577 | 166,996 | 160,039 | 151,744 | 144,580 |
| Total net assets | $ 728,947 | $ 601,351 | $ 588,443 | $ 560,940 | $ 530,639 |

| For the year ended May 31 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Consolidated Statement of Activities and Other Data** | | | | | |
| Student tuition and fees, net of institutional financial aid | $ 159,401 | $ 171,657 | $ 168,749 | $ 161,277 | $ 154,985 |
| Total operating revenues [2] | 228,588 | 242,040 | 244,441 | 231,953 | 218,339 |
| Total operating expenses [2] | 222,881 | 237,985 | 238,132 | 225,525 | 219,490 |
| Increase (decrease) in net assets from operations [2] | 5,707 | 4,055 | 6,309 | 6,428 | (1,151) |
| Increase in net assets from nonoperating activities [3] | 121,889 | 8,853 | 21,194 | 23,873 | 48,599 |
| Increase in total net assets | 127,596 | 12,908 | 27,503 | 30,301 | 47,448 |
| Pooled investment fund return | 48.2% | 3.4% | 3.6% | 11.5% | 14.0% |

| Measured in the fall of the applicable fiscal year | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Other Data** | | | | | |
| Enrollment by headcount | | | | | |
| Undergraduate | 4,852 | 5,222 | 5,304 | 5,209 | 5,160 |
| Graduate | 2,029 | 1,951 | 1,909 | 1,981 | 2,100 |
| Law | 414 | 375 | 350 | 316 | 312 |
| Total enrollment | 7,295 | 7,548 | 7,563 | 7,506 | 7,572 |
| Employees [4] | | | | | |
| Faculty | 455 | 467 | 465 | 448 | 447 |
| Staff and administration | 853 | 887 | 854 | 862 | 852 |
| Total employees | 1,308 | 1,354 | 1,319 | 1,310 | 1,299 |

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

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

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

[4] Employee figures include part-time faculty and staff and exclude student employees and adjunct faculty.

MOSSADAMS

# Report of Independent Auditors

President and Board of Trustees
Gonzaga University

## Report on the 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, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the 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 statements of financial position of Gonzaga University as of May 31, 2021 and 2020, 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.

## Other Matters

### *Other Information*

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

Moss Adams LLP

Spokane, Washington
August 23, 2021

## ASSETS

| | (in thousands) May 31, 2021 | 2020 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 64,547 | $ 55,734 |
| Short-term investments | 33,225 | 36,052 |
| Accounts and interest receivable, net | 12,481 | 11,012 |
| Prepaid expenses | 4,281 | 4,539 |
| Contributions receivable, net | 37,856 | 35,936 |
| Student loans receivable, net | 9,222 | 10,891 |
| Deposits with bond trustees | 13,612 | 38,249 |
| Long-term investments | 452,934 | 312,289 |
| Beneficial interest in split-interest agreements held by others | 14,125 | 13,171 |
| Right of use assets, operating leases | 1,642 | - |
| Right of use assets, finance leases | 2,071 | - |
| Property, plant, and equipment, net | 403,187 | 391,962 |
| Total assets | $ 1,049,183 | $ 909,835 |

## LIABILITIES AND NET ASSETS

| | 2021 | 2020 |
|---|---|---|
| LIABILITIES | | |
| Accounts and other payables | $ 13,746 | $ 10,889 |
| Accrued salaries, taxes, and benefits | 27,673 | 22,318 |
| Line of credit | - | 10,000 |
| Interest payable | 1,549 | 1,575 |
| Deferred revenues and refundable advances | 22,474 | 21,404 |
| Split-interest agreement obligations | 5,922 | 5,340 |
| Federal student loan program | 6,855 | 8,722 |
| Long-term investments held in custody for others | 14,784 | - |
| Operating lease liabilities | 1,632 | - |
| Finance lease liabilities | 2,252 | - |
| Notes and bonds payable | 223,349 | 228,236 |
| Total liabilities | 320,236 | 308,484 |
| NET ASSETS | | |
| Without donor restrictions | 325,460 | 303,299 |
| With donor restrictions | | |
| Time or purpose | 226,910 | 131,056 |
| Perpetuity | 176,577 | 166,996 |
| Total with donor restrictions | 403,487 | 298,052 |
| Total net assets | 728,947 | 601,351 |
| Total liabilities and net assets | $ 1,049,183 | $ 909,835 |


See accompanying notes.

# Gonzaga University
## Consolidated Statements of Activities

| | (in thousands) Year Ended May 31, 2021 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Year Ended May 31, 2020 Total |
| Operating revenues | | | | |
| Student tuition and fees, net | $ 277,719 | $ - | $ 277,719 | $ 286,600 |
| Less institutional financial aid | (118,318) | - | (118,318) | (114,943) |
| | 159,401 | - | 159,401 | 171,657 |
| Contributions | 2,625 | 14,946 | 17,571 | 18,043 |
| Grants and contracts | 3 | 5,479 | 5,482 | 3,911 |
| Return on investments designated for operating activities | 2,588 | 4 | 2,592 | 1,865 |
| Endowment income distributed for operating activities | 2,070 | 9,174 | 11,244 | 10,448 |
| Auxiliary enterprises | 21,300 | - | 21,300 | 22,159 |
| Other sources | 10,966 | 32 | 10,998 | 13,957 |
| Net assets released from restrictions | 27,408 | (27,408) | - | - |
| Total operating revenues | 226,361 | 2,227 | 228,588 | 242,040 |
| Operating expenses | | | | |
| Salaries, wages, and benefits | 146,651 | - | 146,651 | 146,862 |
| Depreciation and amortization | 18,150 | - | 18,150 | 18,121 |
| Professional fees and contracted services | 16,971 | - | 16,971 | 21,618 |
| Occupancy, utilities, and maintenance | 14,229 | - | 14,229 | 14,929 |
| Interest | 8,834 | - | 8,834 | 9,129 |
| Materials, supplies, printing, and postage | 8,380 | - | 8,380 | 11,733 |
| Meetings, travel, and memberships | 5,165 | - | 5,165 | 10,540 |
| Scholarships and student aid | 1,410 | - | 1,410 | 1,363 |
| Other expenses | 3,091 | - | 3,091 | 3,690 |
| Total operating expenses | 222,881 | - | 222,881 | 237,985 |
| Increase in net assets from operations | 3,480 | 2,227 | 5,707 | 4,055 |
| Nonoperating activities | | | | |
| Contributions for acquisition of capital assets, net | - | 5,229 | 5,229 | 4,177 |
| Contributions to endowment funds, net | - | 7,235 | 7,235 | 4,217 |
| Gain on sale of property and equipment | 308 | - | 308 | 35 |
| Return on investments | 19,819 | 97,754 | 117,573 | 10,307 |
| Endowment income distributed for operating activities | (2,070) | (9,174) | (11,244) | (10,448) |
| Change in value of interest rate swaps | - | - | - | (408) |
| Change in value of split-interest agreements | - | 2,788 | 2,788 | 973 |
| Net assets released from restrictions for acquisition of capital assets | 1,020 | (1,020) | - | - |
| Transfers | (396) | 396 | - | - |
| Total nonoperating activities | 18,681 | 103,208 | 121,889 | 8,853 |
| Increase in net assets | 22,161 | 105,435 | 127,596 | 12,908 |
| Net assets at beginning of year | 303,299 | 298,052 | 601,351 | 588,443 |
| Net assets at end of year | $ 325,460 | $ 403,487 | $ 728,947 | $ 601,351 |



See accompanying notes.

(in thousands)
Year Ended May 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Operating revenues | | | |
| Student tuition and fees, net | $ 286,600 | $ - | $ 286,600 |
| Less institutional financial aid | (114,943) | - | (114,943) |
| | 171,657 | - | 171,657 |
| Contributions | 1,627 | 16,416 | 18,043 |
| Grants and contracts | 232 | 3,679 | 3,911 |
| Return on investments designated for operating activities | 1,864 | 1 | 1,865 |
| Endowment income distributed for operating activities | 2,081 | 8,367 | 10,448 |
| Auxiliary enterprises | 22,159 | - | 22,159 |
| Other sources | 13,928 | 29 | 13,957 |
| Net assets released from restrictions | 22,998 | (22,998) | - |
| Total operating revenues | 236,546 | 5,494 | 242,040 |
| Operating expenses | | | |
| Salaries, wages, and benefits | 146,862 | - | 146,862 |
| Professional fees and contracted services | 21,618 | - | 21,618 |
| Depreciation and amortization | 18,121 | - | 18,121 |
| Occupancy, utilities, and maintenance | 14,929 | - | 14,929 |
| Materials, supplies, printing, and postage | 11,733 | - | 11,733 |
| Meetings, travel, and memberships | 10,540 | - | 10,540 |
| Interest | 9,129 | - | 9,129 |
| Scholarships and student aid | 1,363 | - | 1,363 |
| Other expenses | 3,690 | - | 3,690 |
| Total operating expenses | 237,985 | - | 237,985 |
| Increase (decrease) in net assets from operations | (1,439) | 5,494 | 4,055 |
| Nonoperating activities | | | |
| Contributions for acquisition of capital assets, net | - | 4,177 | 4,177 |
| Contributions to endowment funds, net | - | 4,217 | 4,217 |
| Gain on sale of property and equipment | 35 | - | 35 |
| Return on investments | 1,513 | 8,794 | 10,307 |
| Endowment income distributed for operating activities | (2,081) | (8,367) | (10,448) |
| Change in value of interest rate swaps | (408) | - | (408) |
| Change in value of split-interest agreements | - | 973 | 973 |
| 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 |
| Increase (decrease) in net assets | (492) | 13,400 | 12,908 |
| Net assets at beginning of year | 303,791 | 284,652 | 588,443 |
| Net assets at end of year | $ 303,299 | $ 298,052 | $ 601,351 |


See accompanying notes.

# Gonzaga University
## Consolidated Statements of Cash Flows

| | (in thousands) Years Ended May 31, 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | $ 127,596 | $ 12,908 |
| Adjustments to reconcile increase in net assets to net cash from operating activities | | |
| Depreciation and amortization | 18,150 | 18,121 |
| Bond discount and debt issuance cost amortization | 164 | 129 |
| Provision for uncollectible receivables | 3,232 | 184 |
| Gain on sale of property and equipment | (308) | (35) |
| Contributions restricted for long-term purposes | (12,464) | (8,394) |
| Interest and dividends restricted for long-term investment | (7,317) | (5,497) |
| Net realized and unrealized gain on investments | (112,042) | (5,002) |
| Change in value of interest rate swaps | - | 408 |
| Change in value of split-interest agreements | (2,788) | (973) |
| Other change in assets and liabilities, net | 1,010 | (5,422) |
| Net cash from operating activities | 15,233 | 6,427 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property, plant, and equipment | (24,172) | (17,144) |
| Proceeds from sale of property and equipment | 312 | 49 |
| Proceeds from sale of investments | 54,113 | 119,998 |
| Purchase of investments | (48,214) | (152,056) |
| Issuance of student loans receivable | (645) | (147) |
| Repayment of student loans receivable | 2,160 | 2,326 |
| Net cash from investing activities | (16,446) | (46,974) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for long-term purposes | 8,003 | 8,940 |
| Proceeds from contributions for split-interest agreements | 221 | 1,260 |
| 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) |
| Principal payments on bonds, line of credit, and finance leases | (14,818) | (30,213) |
| Payment for interest rate swap termination | - | (4,364) |
| Payments on split-interest agreements | (283) | (244) |
| Interest and dividends restricted for long-term investment | 7,317 | 5,497 |
| Net change in student loan liability | (1,867) | (2,057) |
| Net cash from financing activities | (1,427) | 61,672 |
| NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS | (2,640) | 21,125 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, beginning of year | 80,799 | 59,674 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS, end of year | $ 78,159 | $ 80,799 |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest paid (includes capitalized interest of $786 and $190 for 2021 and 2020, respectively) | $ 9,482 | $ 8,902 |
| NON-CASH ACTIVITIES | | |
| Right of use assets acquired under finance leases | 2,033 | - |
| Acquisition of property, plant, and equipment in accounts payable | 5,127 | 2,599 |
| Gifts of property, plant, and equipment | 109 | 330 |
| Cash and cash equivalents | $ 64,547 | $ 55,734 |
| Deposits with bond trustees | 13,612 | 25,065 |
| Total cash, cash equivalents, and restricted cash equivalents | $ 78,159 | $ 80,799 |



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, 2021 | | | |
|---|---|---|---|---|
| | Corporation | All Other Entities | Inter-Entity Elimination | Consolidated Total |
| Assets | $ 1,048,466 | $ 105,141 | $ (104,424) | $ 1,049,183 |
| Liabilities | $ 354,396 | $ 5,264 | $ (39,424) | $ 320,236 |
| NET ASSETS | | | | |
| Without donor restrictions | 325,032 | 67,888 | (67,460) | 325,460 |
| With donor restrictions | | | | |
| Time or purpose | 203,709 | 20,741 | 2,460 | 226,910 |
| Perpetual | 165,329 | 11,248 | - | 176,577 |
| Total net assets | 694,070 | 99,877 | (65,000) | 728,947 |
| Total liabilities and net assets | $ 1,048,466 | $ 105,141 | $ (104,424) | $ 1,049,183 |

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 $3,761 and $2,674 as of May 31, 2021 and 2020, respectively.

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

**Note 2 – Summary of Significant Accounting Policies (continued)**

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

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

Investments are exposed to various risks, such as interest rate, market, foreign currency, credit, and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the consolidated statements of financial position.

**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 $4,030 and $3,366 as of May 31, 2021 and 2020, respectively. The corresponding amount included in split-interest agreement obligations to meet future payments under gift annuity contracts was $1,601 and $1,641 as of May 31, 2021 and 2020, 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 3% to 7% and are generally repayable to the University over a period not to exceed 10 years.

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

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

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

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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

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.

**Long-term investments held in custody for others** – The University manages certain investments on behalf of the Gonzaga Preparatory School Foundation, an unrelated charitable organization. The management of these investments is subject to an agreement that governs the arrangement, including additions and redemptions. Additions buy an undivided beneficial ownership interest in the University's pooled endowment. Redemptions can be requested, in addition to the annual spending distribution, subject to the underlying liquidity of the endowment pool. A redemption request not to exceed 50% of the fair value of the beneficial interest in the endowment pool will be distributed within 30 calendar days. A redemption request in excess of 50% and up to 80% of the fair value of the benefit interest in the endowment pool may be subject to a longer redemption period informed by the liquidity of the underlying investments in the endowment pool and will be paid within 180 calendar days. A redemption request in excess of 80% of the fair value of the beneficial interest in the endowment pool shall be considered a full redemption and will lead to the complete redemption of all remaining units, paid within 180 calendar days. Long-term investments held in custody for others were $14,784 and $0 as of May 31, 2021 and 2020, respectively.

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

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

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

**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. Students who adjust their course load or withdraw completely within the first four weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. For the years ended May 31, 2021 and 2020, the University issued refunds to students for housing and dining of $1,396 and $6,477, respectively, and net tuition and fees of $0 and $634, respectively, 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 $4,138 and $2,726 as of May 31, 2021 and 2020, respectively, in grant revenue as a result of the CARES Act. The portion used to award COVID-19 relief to students is included in scholarships and student aid and the remaining amount was used to offset lost revenues and refunds of housing and dining charges.

**Advertising** – Costs expensed for the years ended May 31, 2021 and 2020, were $2,627 and $2,318, respectively.

**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, 2021 and 2020, 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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The guidance requires lessees to recognize a right of use asset and lease liability in the statement of financial position for all leases, including operating leases. The University adopted Topic 842 on June 1, 2020 (the effective date), using the modified retrospective transition method, which applies Topic 842 at the beginning of the period in which it is adopted. As a result, on June 1, 2020, the University recognized an operating lease liability of $1,727 and a right of use asset from operating leases of $1,740. Capital leases (now referred to as finance leases) as of June 1, 2020, were reclassified out of notes payable and property, plant, and equipment and into finance lease liabilities of $496 and right of use assets from finance leases of $314, respectfully. There was no impact on net assets. Prior period amounts have not been adjusted in connection with the adoption of this standard. The University elected the package of practical expedients permitted under the transition guidance within Topic 842, which allowed the University to carry forward its identification of contracts that are or contain leases, its historical classification of existing leases, and its accounting for initial direct costs for existing leases. See Note 13 for further lease disclosures.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). The objective and primary focus of ASU 2018-13 is to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP. The University adopted ASU 2018-13 retrospectively on June 1, 2020. See Note 9 for disclosures.

In March 2019, the FASB issued ASU 2019-03, *Updating the Definition of Collections* (Topic 958). ASU 2019-03 modifies the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. The adoption did not result in a material change to how the University accounts for collections.

**Subsequent events** – The University has evaluated subsequent events through August 23, 2021, 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.

(In Thousands)

### Note 3 – Accounts and Interest Receivable, Net

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

| | 2021 | 2020 |
|---|---|---|
| Government grants and loan funds | $ 6,877 | $ 5,990 |
| Student receivables | 646 | 1,154 |
| Miscellaneous receivables | 4,867 | 3,712 |
| Accrued interest receivable | 191 | 256 |
| | 12,581 | 11,112 |
| Less allowance for doubtful accounts | (100) | (100) |
| | $ 12,481 | $ 11,012 |

### Note 4 – Contributions Receivable, Net

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

| | 2021 | 2020 |
|---|---|---|
| In one year or less | $ 12,697 | $ 12,641 |
| Between one year and five years | 21,656 | 21,916 |
| More than five years | 15,633 | 12,507 |
| Less present value discounts | (10,970) | (9,725) |
| | 39,016 | 37,339 |
| Less allowance for doubtful accounts | (1,160) | (1,403) |
| | $ 37,856 | $ 35,936 |

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

| | 2021 | 2020 |
|---|---|---|
| With donor restrictions for financial aid and program support | $ 10,552 | $ 10,710 |
| With donor restrictions for property, plant, and equipment | 22,822 | 21,541 |
| With donor restrictions for endowment financial aid and chairs | 4,482 | 3,685 |
| | $ 37,856 | $ 35,936 |

**(In Thousands)**

**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:

| | 2021 | 2020 |
|---|---|---|
| Federal government programs | $ 7,811 | $ 9,748 |
| Institutional programs | 1,613 | 1,345 |
| | 9,424 | 11,093 |
| Less allowance for doubtful accounts | (202) | (202) |
| Student loans receivable, net | $ 9,222 | $ 10,891 |

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 $6,855 and $8,722 at May 31, 2021 and 2020, 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, 2021 and 2020, 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 |
|---|---|---|---|---|---|---|---|
| 2021 | $ 4 | $ 2 | $ 1 | $ 2 | $ 101 | $ 590 | $ 700 |
| 2020 | $ 5 | $ 2 | $ 2 | $ 5 | $ 147 | $ 560 | $ 721 |

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.

**(In Thousands)**

## Note 6 – Deposits with Bond Trustees

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

| | 2021 | 2020 |
|---|---|---|
| Restricted cash equivalents | $ 13,612 | $ 25,065 |
| Investments | - | 13,184 |
| Total deposits with bond trustees | $ 13,612 | $ 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.

## Note 7 – Investments

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

| | 2021 | 2020 |
|---|---|---|
| Fixed income securities | $ 33,225 | $ 36,052 |

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 1.51 years as of May 31, 2021.

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

| | 2021 | 2020 |
|---|---|---|
| U.S. government and agency obligations | $ - | $ 13,184 |

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

**(In Thousands)**

**Note 7 – Investments (continued)**

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

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 2,930 | $ 1,376 |
| Equity securities | 167,439 | 110,977 |
| Fixed income securities | 55,825 | 39,581 |
| Alternative investments | 145,054 | 83,915 |
| Direct real property investments | 66,375 | 63,768 |
| Split-interest agreements | 14,758 | 11,936 |
| Other | 553 | 736 |
| | $ 452,934 | $ 312,289 |

Direct real property investments include gifted properties held for resale, three real property assets in downtown Seattle, Washington received through an estate gift, and an investment in a joint venture to support health sciences. 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.

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 54 months from the commencement date, the lessee may terminate the ground lease or deposit an additional $500 until the regulatory approvals are obtained. The University may elect to terminate the ground lease if substantial completion has not been achieved within seven years and seven months from the commencement of the ground lease.

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

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

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

**(In Thousands)**

### Note 7 – Investments (continued)

The total lease income recognized on the development ground lease for the years ended May 31, 2021 and 2020, was $935 and $863, respectively, and is recorded as return on investments in the consolidated statements of activities. Fixed and probable lease payments for the development ground lease expected to be received on an annual basis in each of the next five years range from $1,102 to $1,375, 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. These leases expire 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, 2021 and 2020, was $595 and $1,172, respectively, and is 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.

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

| | 2021 | 2020 |
|---|---|---|
| Managed diversified global multi-asset fund | $ 104,487 | $ 58,682 |
| Private equity funds | 21,815 | 9,851 |
| Private credit funds | 11,437 | 8,091 |
| Real estate funds | 5,039 | 5,754 |
| Diversified fund of funds | 2,276 | 1,537 |
| | $ 145,054 | $ 83,915 |

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.

(In Thousands)

## 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:

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

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

| | 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.

**Note 8 – Endowment (continued)**

**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.

**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.

**(In Thousands)**

**Note 8 – Endowment (continued)**

**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 $0 and $58 as of May 31, 2021 and 2020, respectively.

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

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

| | 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 |

**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.

**Note 9 – Fair Value of Financial Instruments (continued)**

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

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

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

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

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

**Level 1 assets include:**

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

**Level 2 assets and liabilities include:**

- Investments in U.S. government and agency obligations, certificates of deposit, corporate bonds, municipal bonds, and asset-backed obligations. These investments use other observable inputs to measure fair value such as dealer market prices for comparable investments based on interest rates, spreads, and trade activity in the market.
- Investments in international commingled equity funds valued using the fund managers' net asset value, derived from active market exchange values of the underlying fund investments at the last reported sales price.
- Investments in privately held stock valued using the market approach using recent sales.
- Certain investment in real property assets valued using appraised or tax assessed values that approximate market values.

**Note 9 – Fair Value of Financial Instruments (continued)**

**Level 3 assets include:**

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

- Direct real property investments are valued based on independent appraisals of two parking garages and one surface lot. The primary unobservable input for each of the parking garages, valued using an income approach, is the income capitalization rate, which was 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 $1,156. A 0.25% increase in the underlying income capitalization rates would decrease the fair value of the two parking garages by approximately $1,032. 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 10 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 1.84% to 6.00%, and applicable life expectancies that range from 3 to 23 years. A 1.0% decrease in each of the underlying discount rates would increase the fair value by approximately $1,571. A 1.0% increase in each of the underlying discount rates would decrease the fair value by approximately $1,216. 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, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Short-term investments | | | | |
| U.S. government and agency obligations | $ - | $ 2,065 | $ - | $ 2,065 |
| Corporate bonds | - | 30,356 | - | 30,356 |
| Municipal bonds | - | 804 | - | 804 |
| Total short-term investments | - | 33,225 | - | 33,225 |
| Long-term investments | | | | |
| Cash and cash equivalents | 2,930 | - | - | 2,930 |
| Equity securities | | | | |
| Mutual funds, index funds, and commingled funds | | | | |
| Domestic | 56,336 | - | - | 56,336 |
| International | 34,655 | 33,529 | - | 68,184 |
| Global | 6,028 | 7,859 | - | 13,887 |
| Direct ownership - public and privately held stock | 28,614 | 17 | 401 | 29,032 |
| Fixed income securities | | | | |
| Mutual funds and index funds | | | | |
| Domestic | 47,148 | - | - | 47,148 |
| International | 8,677 | - | - | 8,677 |
| Direct real property investments | - | 395 | 65,980 | 66,375 |
| Assets held under split-interest agreements | | | | |
| Cash and cash equivalents | 601 | - | - | 601 |
| Equity mutual funds | 2,021 | - | - | 2,021 |
| Equity-direct ownership | 8,518 | - | - | 8,518 |
| Fixed income mutual funds | 3,102 | - | - | 3,102 |
| Fixed income-direct ownership | - | 516 | - | 516 |
| Other | 324 | 229 | - | 553 |
| Total long-term investments in fair value hierarchy | 198,954 | 42,545 | 66,381 | 307,880 |
| Beneficial interest in split-interest agreements held by others | - | - | 14,125 | 14,125 |
| Total assets in fair value hierarchy | $ 198,954 | $ 75,770 | $ 80,506 | $ 355,230 |
| Long-term investments measured at NAV practical expedient[(1)] | | | | $ 145,054 |

(1) In accordance with Subtopic 820-10, certain investments that are measured at net asset value 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, 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 | 6,575 | - | - | 6,575 |
| 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 | 138,228 | 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 | $ 138,228 | $ 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)

Following is a reconciliation of activity for the years ended May 31, 2021 and 2020, 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, 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 |
| Contributions | - | - | 439 | 439 |
| Purchase of investments | - | 1,000 | - | 1,000 |
| Return on investments | 92 | 2,558 | 730 | 3,380 |
| Return of capital | - | (878) | (215) | (1,093) |
| Balance, May 31, 2021 | $ 401 | $ 65,980 | $ 14,125 | $ 80,506 |

Unrealized gains and losses for investment classified as Level 3 were $1,886 and ($1,897) for the years ended May 31, 2021 and 2020, respectively.

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

| | Fair Value at May 31, 2021 | Unfunded Cash Commitments | Redemption Frequency (if Eligible) | Redemption Notice Period | Investment Strategies and Other Restrictions |
|---|---|---|---|---|---|
| Commingled funds (Level 2) | $ 41,388 | $ - | (a) | (a) | (a) |
| Limited partnership investments | | | | | |
| Managed diversified global multi-asset fund | $ 104,487 | $ 15,000 | (b) | (b) | (b) |
| Private equity funds | 21,815 | 10,146 | (c) | n/a | (c) |
| Private credit funds | 11,437 | 9,500 | (d) | n/a | (d) |
| Real estate fund | 5,039 | - | (e) | (e) | (e) |
| Diversified fund of funds | 2,276 | 39 | (f) | (f) | (f) |
| Total long-term investments measured at NAV practical expedient | $ 145,054 | $ 34,685 | | | |

(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, 2021, the value of the liquid portion is $11,730. 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.

The University anticipates that a $15,000 unfunded cash commitment will be recognized on a pro-rata basis semiannually beginning June 30, 2021, for a period of two years.

(c) 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, and one sustainable real assets fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. It is estimated that the underlying assets of the funds will be liquidated between 2021 and 2030.

**Note 9 – Fair Value of Financial Instruments (continued)**

(d) This category includes five private credit funds, including a mezzanine debt fund, two special opportunities funds, an upper-middle market direct lending fund, and a European direct fund. Each fund has the objective to invest in debt and debt-like preferred securities of companies, primarily to generate interest income, within the mandate of the respective fund. Each fund is nonredeemable and can be sold only on the secondary market as long as the respective fund general partner receives an opinion from counsel that such a transfer is not in violation of certain sanctions of the Securities Act, Investment Company Act, and/or federal tax laws. Distributions are received through the liquidation of the underlying assets of the funds. It is estimated the underlying assets of these funds will be liquidated between 2021 and 2026.

(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 2021 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.

(In Thousands)

## Note 10 – Property, Plant, and Equipment, Net

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

| | 2021 | 2020 |
|---|---|---|
| Land | $ 12,807 | $ 12,807 |
| Land improvements | 8,696 | 8,294 |
| Buildings | 467,936 | 466,547 |
| Equipment and furniture | 46,420 | 46,670 |
| Collection of artwork | 5,091 | 4,976 |
| Library books | 5,690 | 5,659 |
| Construction in progress | 38,104 | 11,918 |
| | 584,744 | 556,871 |
| Less accumulated depreciation | (181,557) | (164,909) |
| | $ 403,187 | $ 391,962 |

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

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

| Project | Cost to Date May 31, 2019 | Current Year Additions | Placed into Service | Cost to Date May 31, 2020 |
|---|---|---|---|---|
| John and Joan Bollier Family Center for 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 |

(In Thousands)

### Note 11 – Lines of Credit

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

| Line of Credit | Total Available Credit | Rate | Term | Security | Balance at May 31, 2021 | Balance at May 31, 2020 |
|---|---|---|---|---|---|---|
| Revolving operating | $ 13,000 | Prime minus 1.9375%, floor of 1.3125%; 1.3125% as of May 31, 2021 | 3/1/2022 | Parity lien on gross revenue without donor restriction | $ - | $ 10,000 |
| Revolving capital | 10,000 | One-month LIBOR plus 1.85%, floor of 2.15%; 2.15% as of May 31, 2021 | 12/20/2021 | Unsecured | - | - |

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

| | Balance at May 31, 2019 | Revenue Recognized Included in May 31, 2019 Balance | Cash Received in Advance of Performance | Balance at May 31, 2020 |
|---|---|---|---|---|
| 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 |

The balance of deferred tuition revenue at May 31, 2021, less any refunds issued will be recognized as revenue over the academic term beginning June 1, 2021, as services are rendered.

Refundable advances consist of vendor incentive payments. The balance of refundable advances at May 31, 2021, was $8,540, of which $6,642 will be recognized as a reduction of operating expenses over the term of the agreements that expire starting in 2022 through 2031 and $1,898 will be recognized as revenue from other sources during the terms of the agreements that expire starting in 2022 through 2029.

(In Thousands)

**Note 13 – Leases**

The University is the lessee in two operating leases. One lease is for the rental of land and contains an option to purchase the property at the end of the lease term. At any time during the lease term, the lessor has the option of a tax-free exchange of properties that would allow the University to purchase the leased property at an earlier date. The University constructed an apartment building on this property and plans to exercise the option to purchase for $900 in 2032 at the expiration of the lease, if not executed prior. The other operating lease is for the rental of academic exhibit space that expires in 2027. This lease contains a renewal option, but the University is not reasonably certain to exercise the option to extend. This lease includes variable rent payments that increase each year based on the consumer price index. As of May 31, 2021, the University recognized a lease liability of $1,632 with a corresponding right of use asset of $1,642 based on the present value of the minimum rental payments. Cash payments for amounts included in the measurement of lease liabilities for the year ended May 31, 2021, are $146 and are reflected within cash flows from operating activities on the consolidated statement of cash flows. The weighted average discount rate is 3.0% and the weighted average remaining lease term is 9.2 years.

As of May 31, 2021, the University is the lessee in five finance leases. One lease is for the rental of an apartment complex that expires in 2094. The other four finance leases are for the rental of equipment and vehicles that expire in various years through 2026. As of May 31, 2021, the University recognized a lease liability of $2,252 with a corresponding right of use asset of $2,071 based on the present value of the minimum rental payments. Cash payments for amounts included in the measurement of lease liabilities for the year ended May 31, 2021, are $309 and are reflected within cash flows from operating activities of $46 and cash flows from financing activities of $263 on the consolidated statement of cash flows. The weighted average discount rate is 3.3% and the weighted average remaining lease term is 15.7 years.

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

| | 2021 |
|---|---|
| Finance lease cost | |
| Amortization of right-of-use asset | $ 265 |
| Interest on lease liabilities | 46 |
| Operating lease cost | 146 |
| Variable lease cost | 2 |
| Short-term lease cost | 843 |
| Total lease cost | $ 1,302 |

## (In Thousands)

### Note 13 – Leases (continued)

Future minimum lease payments are as follows:

| | Finance | Operating |
|---|---|---|
| Years ending May 31, | | |
| 2022 | $ 536 | $ 146 |
| 2023 | 526 | 146 |
| 2024 | 523 | 146 |
| 2025 | 386 | 146 |
| 2026 | 139 | 146 |
| Thereafter | 2,017 | 1,273 |
| Total minimum lease payments | 4,127 | 2,003 |
| Amounts representing interest | (1,875) | (371) |
| Present value of net minimum lease payments | $ 2,252 | $ 1,632 |

In July 2020, the 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 Health Partnership 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 $1,654 plus common area charges, subject to annual inflation, for an initial 12-year period with five extension options to extend the term for a period of five years per option period. This lease will not be included in lease liabilities until the commencement of the lease.

### Note 14 – Notes and Bonds Payable

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

| | 2021 | 2020 |
|---|---|---|
| Taxable bonds | | |
| Series 2019 B | $ 21,200 | $ 25,755 |
| Series 2016 A | 108,275 | 108,275 |
| Series 2013 B | 20,000 | 20,000 |
| Tax exempt bonds | | |
| Series 2019 A | 44,685 | 44,685 |
| Series 2013 A | 33,000 | 33,000 |
| Other notes | - | 496 |
| | 227,160 | 232,211 |
| Unamortized net discount | (1,772) | (1,842) |
| Unamortized debt issuance costs | (2,039) | (2,133) |
| | $ 223,349 | $ 228,236 |

**(In Thousands)**

**Note 14 – Notes and Bonds Payable (continued)**

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. 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.

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

| Years ending May 31, | Principal |
|---|---|
| 2022 | $ 2,000 |
| 2023 | 2,000 |
| 2024 | 2,000 |
| 2025 | 1,520 |
| 2026 | 1,520 |
| Thereafter | 218,120 |
| | 227,160 |
| Unamortized net discount | (1,772) |
| Unamortized debt issuance costs | (2,039) |
| | $ 223,349 |

**(In Thousands)**

### Note 15 – Net Assets

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

| | 2021 | 2020 |
|---|---|---|
| Without donor restrictions | | |
| Available for operations | $ 62,921 | $ 47,673 |
| Property, plant, and equipment | 183,045 | 194,077 |
| Board-designated quasi-endowment for financial aid | 39,900 | 27,734 |
| Board-designated quasi-endowment for general support | 28,599 | 26,069 |
| Board-designated quasi-endowment for program support | 10,818 | 7,569 |
| Board-designated for investment in property, plant, and equipment | 177 | 177 |
| Total without donor restrictions | $ 325,460 | $ 303,299 |
| With donor restrictions for time or purpose | | |
| Unappropriated donor-restricted endowment earnings | $ 171,429 | $ 83,660 |
| Property, plant, and equipment | 11,910 | 7,721 |
| Board-designated quasi-endowment for Foundation | 1,851 | 1,705 |
| Financial aid | 5,697 | 4,981 |
| Program support | 28,502 | 26,903 |
| Academic chairs | 2,330 | 2,264 |
| Life income funds | 4,558 | 3,355 |
| Annuities | 622 | 456 |
| Student loan program | 11 | 11 |
| Total with donor restrictions for time or purpose | $ 226,910 | $ 131,056 |
| With donor restrictions in perpetuity | | |
| Financial aid | $ 125,528 | $ 118,949 |
| Program support | 21,701 | 20,754 |
| Academic chairs | 15,156 | 15,145 |
| Split-interest agreements | 11,016 | 8,953 |
| Student loan program | 3,176 | 3,195 |
| Total with donor restrictions in perpetuity | $ 176,577 | $ 166,996 |

**(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.

| | 2021 | 2020 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | $ 64,547 | $ 55,734 |
| Short-term investments | 33,225 | 36,052 |
| Accounts and interest receivable, net | 12,481 | 11,012 |
| Contributions receivable, net | 37,856 | 35,936 |
| Student loans receivable, net | 9,222 | 10,891 |
| Deposits with bond trustees | 13,612 | 38,249 |
| Long-term investments | 452,934 | 312,289 |
| Beneficial interest in split-interest agreements held by others | 14,125 | 13,171 |
| Financial assets at May 31 | 638,002 | 513,334 |
| Less financial assets unavailable for general expenditure within one year | | |
| Accounts receivable beyond one year | 625 | 1,955 |
| Contributions receivable collectible beyond one year | 26,285 | 24,524 |
| Student loan receivable restricted for financial aid purposes | 9,222 | 10,891 |
| Deposits with bond trustees restricted for construction | 13,612 | 38,249 |
| Other assets with donor or board restrictions for construction | 5,574 | 5,471 |
| Endowment assets, net of appropriation for next fiscal year | 435,767 | 298,466 |
| Non-endowment investments beyond one year | 7,217 | 4,772 |
| Assets held by others | 14,125 | 13,171 |
| Financial assets unavailable for general expenditure within one year | 512,427 | 397,499 |
| Financial assets available to meet cash needs for general expenditure within one year | $ 125,575 | $ 115,835 |

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due. In addition to financial assets available to meet general expenditures over the next year, the University's goal is to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the consolidated statements of cash flows, which illustrates the sources and uses of the University's cash generated by operating activities for the years ended May 31, 2021 and 2020.

**(In Thousands)**

### Note 16 – Financial Assets and Liquidity Resources (continued)

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has $23,000 in committed lines of credit. The outstanding advances against the lines of credit for the years ended May 31, 2021 and 2020, were $0 and $10,000, respectively. Additionally, the University has $79,317 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 $34,685 and may be called by the investment manager at any time (see Note 9).

### Note 17 – Expenses by Natural and Functional Classification

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

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

| | Program Activities | | Supporting Activities | | | |
|---|---|---|---|---|---|---|
| | Academic Instruction & Support | Student Services & Auxiliaries | Administrative Support | Fundraising | Facilities Operation & Maintenance | Total Expense |
| Salaries, wages, and benefits | $ 83,475 | $ 33,771 | $ 17,371 | $ 3,010 | $ 9,024 | $ 146,651 |
| Depreciation and amortization | 5,845 | 9,726 | 2,194 | 211 | 174 | 18,150 |
| Professional fees & contracted services | 2,210 | 11,804 | 2,452 | 406 | 99 | 16,971 |
| Occupancy, utilities, and maintenance | 3,171 | 2,922 | 2,067 | 59 | 6,010 | 14,229 |
| Interest | 926 | 6,552 | 1,079 | 101 | 176 | 8,834 |
| Materials, supplies, printing & postage | 4,145 | 1,781 | 1,332 | 272 | 850 | 8,380 |
| Meetings, travel, and memberships | 475 | 3,905 | 687 | 79 | 19 | 5,165 |
| Scholarships and student aid | 1,410 | - | - | - | - | 1,410 |
| Other expenses | 549 | 1,887 | 614 | 33 | 8 | 3,091 |
| | 102,206 | 72,348 | 27,796 | 4,171 | 16,360 | 222,881 |
| Facilities operation and maintenance | 5,272 | 8,772 | 2,125 | 191 | (16,360) | - |
| Total expenses | $ 107,478 | $ 81,120 | $ 29,921 | $ 4,362 | $ - | $ 222,881 |

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 |
| Depreciation and amortization | 5,919 | 9,832 | 1,983 | 223 | 164 | 18,121 |
| Professional fees & contracted services | 8,014 | 10,918 | 2,097 | 148 | 441 | 21,618 |
| Occupancy, utilities, and maintenance | 3,450 | 2,296 | 2,011 | 64 | 7,108 | 14,929 |
| Interest | 1,401 | 6,398 | 1,045 | 112 | 173 | 9,129 |
| 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 |
| 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 |

(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 $8,090 and $7,627 for the years ended May 31, 2021 and 2020, respectively.

The University maintains two 457(b) supplemental deferred compensation plans funded by highly compensated employee pre-tax dollar contributions. The original plan was frozen to new participants on December 31, 2016. The second plan commenced on January 1, 2017. Voluntary employee contributions and accumulated earnings to the 457(b) plans of $4,346 and $3,294 as of May 31, 2021 and 2020, respectively, are included in long-term investments and accrued benefits payable. By IRS regulations, these funds are considered to be assets of the University until distributed to participants.

The University also maintains a 457(f) non-qualified deferred compensation plan funded by the University. The purpose of the plan is to permit certain employees selected by the Board of Trustees to accumulate deferred compensation. The plan covers employees who are among a select group of management or highly compensated employees and contributions vest on January 15, 2024. The University's expense for the plan was $338 and $296 for the years ended May 31, 2021 and 2020, respectively. Accrued salary and benefits payable were $718 and $296 as of May 31, 2021 and 2020, respectively. Contributions and accumulated earnings of the 457(f) plan were $693 and $229 as of May 31, 2021 and 2020, respectively, and are included in long-term investments. By IRS regulations, these funds are considered to be assets of the University until distributed to the participant.

**Note 19 – Related Parties**

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

| | 2021 | 2020 |
|---|---|---|
| Contributions receivable | $ 19,030 | $ 19,613 |
| Contributions revenue | 1,529 | 4,895 |

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 $2,284 and $2,576 as of May 31, 2021 and 2020, respectively, and is included in beneficial interest in split-interest agreements held by others.

### Note 20 – Commitments and Contingencies

**Commitments** – The University has obtained or has plans to obtain the necessary funding for the acquisition, construction, renovation, and furnishing of certain facilities that will be capitalized in the applicable capital asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects, which are expected to be completed in varying phases over the next one or two years at an estimated unexpended cost of $10,234. Of the unexpended balance, the University has remaining commitment balances of $8,755 with certain engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capitalized projects as of May 31, 2021, were $1,478.

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, 2022, 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** – From time to time, the University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the results of these matters will not have a significant impact on the consolidated financial statements. At this time, there is no pending litigation against the University.

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

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

## Mission Statement

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

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

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

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

## Vision Statement

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

GONZAGA UNIVERSITY

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